99TH CONGRESS
1st Session
HOUSE OF REPRESENTATIVES
REPT. 99-222
Part 1

SBA AUTHORIZATIONS AND PROGRAM CHANGES

JULY 23, 1985.—Ordered to be printed

Mr. MITCHELL, from the Committee on Small Business, submitted the following

REPORT

[To accompany H.R. 2540]

[Including cost estimate of the Congressional Budget Office]

The Committee on Small Business, to whom was referred the bill (H.R. 2540) to authorize the appropriation of funds to the Small Business Administration, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

SECTION 1. Section 20 of the Small Business Act is amended by adding the following:

"(u) The following program levels are authorized for fiscal year 1986—

"(1) for the programs authorized by section 7(a) of this Act, the Administration is authorized to make $80,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $15,000,000 in loans as provided in paragraph (10), $45,000,000 in loans as provided in paragraph (11), and $20,000,000 in loans to disabled veterans and Vietnam era veterans as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72;

"(2) for the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $2,862,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as provided in paragraph (11), $15,000,000 in loans as provided in paragraph (12), $450,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503;

"(3) for the program authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $41,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures;

50-422 O

H723-1.

"(4) for the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $900,000,000; and

"(5) for the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $50,000,000.

"(v) There are authorized to be appropriated to the Administration for fiscal year 1986, $593,340,000. Of such sum, $376,000,000 shall be available for the purpose of carrying out the programs referred to in subsection (u), paragraphs (1) through (3); $12,000,000 shall be available for the purposes of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $205,340,000 shall be available for salaries and expenses of the Administration. There also are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

"(w) The following program levels are authorized for fiscal year 1987—

"(1) for the programs authorized by section 7(a) of this Act, the Administration is authorized to make $80,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $15,000,000 in loans as provided in paragraph (10), $45,000,000 in loans as provided in paragraph (11), and $20,000,000 in loans to disabled veterans and Vietnam era veterans as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72;

"(2) for the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $2,862,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as provided in paragraph (11), $15,000,000 in loans as provided in paragraph (12), $450,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503;

"(3) for the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $41,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures;

"(4) for the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $900,000,000; and

"(5) for the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $50,000,000.

"(x) There are authorized to be appropriated to the Administration for fiscal year 1987, $627,340,000. Of such sum, $410,000,000 shall be available for the purpose of carrying out the programs referred to in subsection (w), paragraphs (1) through (3); $12,000,000 shall be available for the purposes of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $205,340,000 shall be available for salaries and expenses of the Administration. There also are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

"(y) The following program levels are authorized for fiscal year 1988—

"(1) for the programs authorized by section 7(a) of this Act, the Administration is authorized to make $80,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $15,000,000 in loans as provided in paragraph (10), $45,000,000 in loans as provided in paragraph (11), and $20,000,000 in loans to disabled veterans and Vietnam era veterans as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72;

"(2) for the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $2,862,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as provided in para-

graph (11), $15,000,000 in loans as provided in paragraph (12), $450,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503;

"(3) for the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $41,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures;

"(4) for the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $900,000,000; and

"(5) for the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $50,000,000.

"(z) There are authorized to be appropriated to the Administration for fiscal year 1988, $634,340,000. Of such sum, $417,000,000 shall be available for the purpose of carrying out the programs referred to in subsection (y), paragraphs (1) through (3); $12,000,000 shall be available for the purposes of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $205,340,000 shall be available for salaries and expenses of the Administration. There also are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.".

SEC. 2. Section 20(t) of the Small Business Act is amended as follows:

(a) by striking "each of fiscal years 1985 and 1986," and by inserting in lieu thereof "1985"; and

(b) by striking "for each of such years".

SEC. 3. (a) Section 15 of the Small Business Act is amended by adding at the end thereof the following new subsection:

"(n) For purposes of this section, the determination of labor surplus areas shall be made on the basis of the criteria in effect at the time of the determination except that any minimum population criteria shall not exceed twenty-five thousand. Such determination, as modified by the preceding sentence, shall be made by the Secretary of Labor.".

(b) The amendment made by subsection (a) shall take effect on the ninetieth day after the date of the enactment of this Act.

SEC. 4. (a) Title III of the Small Business Investment Act of 1958 is amended by adding at the end thereof the following new section:

"GUARANTEED OBLIGATIONS NOT ELIGIBLE FOR PURCHASE BY FEDERAL FINANCING BANK

"SEC. 320. Nothing in any provision of law shall be construed to authorize the Federal Financing Bank to acquire after September 30, 1985—

"(1) any obligation the payment of principal or interest on which has at any time been guaranteed in whole or in part under this title,

"(2) any obligation which is an interest in any obligation described in paragraph (1), or

"(3) any obligation which is secured by, or substantially all of the value of which is attributable to, any obligation described in paragraph (1) or (2).".

(b) The table of sections for such title III is amended by adding at the end thereof the following new items:

"Sec. 320. Guaranteed obligations not eligible for purchase by Federal Financing Bank.".

SEC. 5. (a) Title III of the Small Business Investment Act of 1958 is amended by adding at the end thereof the following new section:

"ISSUANCE AND GUARANTEE OF TRUST CERTIFICATES

"SEC. 321. The Administration or its agent is authorized to issue trust certificates representing ownership of all or a fractional part of the guaranteed debentures issued by small business investment companies and guaranteed by the Administratin under this Act under the same authority, terms and conditions as are applicable to trust certificates issued for loans pursuant to the authority of subsection 5(g) of the Small Business Act.".

(b) The table of sections for such title III is amended by adding at the end thereof the following new item:

"Sec. 321. Issuance and guarantee of trust certificates.".

SEC. 6. (a) Section 7(b) of the Small Business Act is amended as follows:

(1) by striking "The" after "(b)" and inserting in lieu thereof "Except as to agricultural enterprises as defined in section 18(b)(1) of this Act, the,";

(2) by adding "and" to the end of paragraph (1);

(3) by striking out the semicolon at the end of paragraph (2) and inserting in lieu thereof a period; and

(4) by striking paragraphs (3) and (4).

(b) Section 7(c)(4) of such Act is amended by striking out the last, undesignated paragraph.

(c) Section 18(a) of such Act is amended by striking all of the first sentence that follows "Federal Government," and precedes "and nothing".

SEC. 7. Section 7(a) of the Small Business Act is amended by adding at the end thereof the following:

"(16) The Administration shall collect a guarantee fee equal to three percent of the amount of the deferred participation share of any loan under this subsection other than a loan repayable in one year or less or a loan under paragraph (13). The fee shall be payable by the participaing lending institution and may be charged to the borrower.".

SEC. 8. The Small Business Investment Act of 1958 is amended by adding the following new section to title V:

SEC. 504(a). Of the program levels otherwise authorized by law for Fiscal Year 1986 and notwithstanding any other law, rule or regulation, the Administration is authorized and directed to conduct a pilot program involving the sale to investors, either publically or by private placement, of up to $100 million in debentures guaranteed pursuant to section 503 of the Small Business Investment Act of 1958. The sale may be for all or a fractional part of such amount and the Administration or its agent further is authorized to issue trust certificates for such debentures under the same authority, terms and conditions as are applicable to trust certificates issued for loans pursuant to the authority of subsection 5(g) of the Small Business Act.

"(b) Nothing in any provision of law shall be construed to authorize the Federal Financing Bank to acquire—

"(1) any obligation the payment of principal or interest on which at any time has been guaranteed in whole or in part under section 503 of the Small Business Investment Act of 1958 and which is being sold pursuant to the provisions of the pilot program authorized in subsection (a),

"(2) any obligation which is an interest in any obligation described in paragraph (1), or

"(3) any obligation which is secured by, or substantially all of the value of which is attributable to, any obligation described in paragraph (1) or (2).

"(c) The Administration shall report to the President and the Congress on the conduct of such pilot program not later than 90 days after the date on which the last sale is made pursuant to paragraph (a) and unless such report has been made by October 1, 1986, the Administration shall make an interim report by such date.".

SEC. 9. Section 16 of the Small Business Act is amended by adding to the end thereof the following new subsection:

"(d) Whoever makes any statement knowing it to be false, or whoever knowingly makes or uses any false document, writing or entry, for the purpose of misrepresenting the status of any concern or person as a 'small business concern' or 'small business concern owned and controlled by socially and economically disadvantaged individuals', in order to obtain for oneself or another any—

"(1) prime contract to be awarded pursuant to sections 9 or 15;

"(2) subcontract to be awarded pursuant to section 8(a);

"(3) subcontract that is to be included as part or all of a goal contained in a subcontracting plan required pursuant to section 8(d); or

"(4) prime or subcontract to be awarded as a result or in furtherance of any other provision of Federal law that specifically references section 8(d) for a definition of program eligibility,

shall be punished by a fine of not more than $50,000 or by imprisonment for not more than five years, or both.".

SEC. 10. Not later than December 15, 1985, the Administrator of the Small Business Administration shall submit to the Committees on Small Business of the Senate and House of Representatives an internal report on the options available to providing a guarantee on loans under section 7(a) of the Small Business Act from sources outside the Federal Government, together with such recommendations as the Administrator may have with respect to such options. One option which shall be

evaluated in such report is the creation of a corporation owned by the Federal Government to make such guarantees.

SEC. 11. Subsection (a) of section 7 of the Small Business Act is amended by adding at the end thereof the following new paragraph:

"(17)(A) No financial assistance shall be available under this subsection which benefits any applicant—

"(i) which performs abortion,

"(ii) which engages in research which relates, in whole or in part, to methods of, or the performance of, abortion,

"(iii) which promotes or recommends abortion, or

"(iv) which trains any individual to perform abortion.

"(B) Subparagraph (A) shall not apply to any activity described in clause (i) or (iii) of subparagraph (A) if all of the abortions performed, promoted, and recommended in such activity are in cases where the life of the mother would be endangered if the fetus were carried to term.".

SEC. 12. (a) Section 5 of the Small Business Act is amended by adding at the end thereof the following new subsection:

"(i)(1) Notwithstanding any other provision of law, the Administrator shall prescribe regulations which impose fees for services provided by the Administration Such fees shall be in such amounts (subject to the limitation in paragraph (2)) as the Administrator determines to be appropriate, and apply only to the following services—

"(A) publications provided by the Administration,

"(B) processing applications for guaranteed or other loans, and

"(C) determining whether any business is a small business concern (or any type of such concern) for purposes of enabling such business to be eligible for any assistance or preferential treatment under this or any other Act.

"(2) With respect to any fee imposed under this subsection—

"(A) In the case of fees imposed for publications, such fees shall not exceed the lesser of $5 per publication, or the actual publication costs of said publication.

"(B) In the case of fees imposed for processing applications for loans, such fee shall not exceed $100.

"(C) In the case of fees imposed for designation as a small business concern (or any type of such concern), such fee shall not exceed $100 but shall be refunded to the applicant if such designation is not made.

"(3) Amounts collected pursuant to this subsection shall be deposited in the general fund of the Treasury as proprietary receipts of the Small Business Administration to be retained and used by such Administration to cover the costs of such services and publications to the extent and in the amounts as provided in advance in appropriations Acts. There shall be an annual verification by the Administrator of amounts collected and expended for services and publications as provided herein.".

(b) Within one year of the date of enactment of this Act, the Administrator of the Small Business Administration shall submit to the Committees on Small Business and Appropriations of the Senate and House of Representatives a report with his findings and recommendations as to:

"(1) the imposition of fees for counseling services provided by the Administration; and

"(2) the imposition on each participating lender in the guaranteed loan program section 7(a) of the Small Business Act of an annual fee of between one-quarter of one percent and one percent of the value of the unpaid balance of any loan made under such program, particularly on the revenues that could be expected and whether such revenues could be used for a loss reserve fund or to defray the cost of administration of the program.

(c) Not later than 60 days after the enactment of this Act, the Administrator of the Small Business Administration shall submit to the Committees on Small Business and Appropriations of the Senate and House of Representatives a report detailing the fees which the Administrator is considering to impose under the amendment made by subsection (a) and his proposed timetable for imposing such fees.

THE PURPOSE OF THE BILL

The Committee's bill, H.R. 2540, is the necessary legislative rewrite of the Small Business Administration's Fiscal Year 1986

through 1988 authorizations with program modifications in support of this initiative. It is the Committee's response to mounting concern over the budget deficit, and foremost it is a rejection of the administration's budget and legislative initiatives to terminate the Small Business Administration which, without the strong objections of your Committee and, indeed, the entire Congress, would have been forced upon the small and minority business communities. The bill is premised on the Committee's belief that small business deserves an independent voice within the Federal Government and assurance of a fair share in this Nation's economy, which is so largely dominated by big government and big business. Why preserve this fair share position of small business in the economy? Because small business is clearly our best single source of job creation, innovation and productivity. By far, most new jobs are provided by small businesses employing fewer than five hundred employees.

There are about 14 million businesses in the United States, of which 98 percent are small by SBA size standards. The number of small businesses has increased steadily during the past 30 years. In 1984, new business incorporations (one measure of new businesses) totaled about 650,000, a new record. The previous record of 600,000 new business incorporations was set in 1983. New business startups (another measure of small business growth) increased seven percent in 1984.

Small businesses employ 48 percent of the private work force, contribute 42 percent of all sales in the country and are responsible for 38 percent of the gross national product. Unfortunately, one out of every two new small businesses will fail within the first four years of operation. Overall, a firm's chances of survival increase with size; firms with 20 or more workers have a 20 percent greater chance of survival than firms with fewer than 20 workers.

During 1981–82, small business employment proved a moderating force in the recession. During those years, small businesses produced a total of 2.65 million new jobs, while large businesses were cutting their employment by 1.7 million. Therefore, all of the 984,000 new jobs generated in 1981–82 came from small firms. Small firms continue to lead the way in employment gains. From October 1982 through 1984, employment in industries dominated by small businesses (industries in which firms with fewer than 500 employees account for 60 percent or more of sales or employment) rose 11.4 percent; employment in industries dominated by large businesses rose 5.3 percent. Jobs generated by small firms are more likely to be filled by younger workers, older workers and women. Many of these workers prefer or are only able to work on a part-time basis, and thus can be more easily accommodated by small employers. Small businesses provide about 67 percent of initial job opportunities and are responsible for the major cost in initial on-the-job training in basic skills.

Studies show that the incidence of innovation among small business workers is significantly higher than among workers in large businesses. Small firms produce 2½ times as many innovations as large firms relative to the number of persons employed. Innnovation coming from small hi-tech firms is expected to increase in the coming years as a result of the Small Business Innovation Re-

search Development Act. Under the Act, federal agencies with large research and development budgets must direct an increased amount of R&D contracts to small firms—the source of most innovations and new technologies. Small businesses have been responsible for more than half of the new product and service innovations developed since World War II.

The Committee continues to be concerned about the precarious position of small and minority businesses in the economy. During the month ending April 19, 1985, there were more business failures than during any single one-month period over the last 53 years. Such a large volume of business failures represents a serious and continuing underlying problem in the economy. The high real interest rates and the economic shock from the "overvalued" U.S. dollar are the major causes of the recent failures. Small businesses are still paying real interest rates that are two to three times the historical average. From 1950 to 1980, small business paid real interest rates of 2 to 5 percentage points compared to the current 8 to 12 percentage points. The Nation is facing a 10-month stagnation in industrial production, the loss of 134,000 manufacturing jobs since January, the recession in agriculture, and the huge trade deficits all of which are the consequences of poor economic policies.

At a time when our Nation must move back toward economic health, job creation and the small business contribution to an economic recovery must be recognized and supported. Small business and those participating in the SBA programs requiring government/private sector cooperation deserve reassurance and the certainty that SBA programs will be adequate over the next three years.

H.R 2540, a three year authorization bill, as introduced, was designed to save approximately $1.5 billion more than a freeze at Fiscal Year 1985 program levels alone would save. To accomplish these initiatives, H.R. 2540 would have restructured certain existing financial programs such as Direct Business Lending, and make funding level changes for Pollution Control Financing, Surety Bond Guarantees, and the Development Company Program. To make the limited amount of direct loans go further, these loans would have been reduced in amount and term and subjected to certain participation requirements. SBA's direct loan program would have been modified to meet criticism of the program's default rate by providing a measurement of the cost-effectiveness of direct lending.

The Committee has reported a three-year authorization for SBA programs and activities which will maintain SBA as a viable and independent agency and achieve substantial savings over the next three years. The bill is a radical departure from previous SBA authorization bills, in that H.R. 2540, as reported, eliminates SBA's general direct loan program. The proposed program levels for direct loans retained, i.e., the handicapped, economic opportunity and veterans loan programs would amount to $80 million for each of the next three fiscal years (a reduction of 60 percent). Rather than being frozen at current levels, annual guaranteed loan levels would be reduced by ten percent below the appropriation for 1985 of $3.18, i.e., at a level of $2.862 billion for each of the next three Fiscal Years.

The Small Business Administration's 7(a) direct and immediate participation loan program is the very basis of the agency having been in existence some 50 years: SBA's beginning was as successor to the Reconstruction Finance Corporation, inheriting responsiblity for that agency's direct loan program. Full Committee Markup abolished funding for SBA's only direct loan program available to all small concerns and providing $108 million to those unable to receive any other financing. Also eliminated were 7(a) direct funds for solar and other energy conservation loans currently funded at $3 million. No changes were made in direct loan term and amount as were proposed in the bill as introduced.

The bill, as reported, raises the cost to the borrower for SBA's 7(a) guaranteed loans with over one year terms from a fee of 1% of the loan amount guaranteed to 3% of the loan amount guaranteed. This would increase revenues to SBA in line with the Committee's position on increased imposition of user fees for all agency publications and services and make SBA bank guaranteed loans more expensive than comparable financings especially when taking in account the action to charge application fees.

Funding levels for Small Business Investment Companies (SBICs) would be frozen at $250 million and at $41 million for Minority Enterprise Small Business Investment Companies (MESBICs). Guarantee program levels were reduced as in H.R. 2540 as reported, e.g., for surety bond guarantees at $900 million and pollution control bond guarantees at $50 million.

The measure does, however, for the next three years, freeze SBA salaries and operating expenses at fiscal 1985 levels. It eliminates agricultural enterprises from SBA disaster assistance and terminates SBA's non-physical disaster assistance programs.

The Committee acted to prohibit the Federal Financing Bank from acquiring debentures issued by small business investment companies with an SBA guarantee. Existing law authorizes the Federal Financing Bank to purchase these debentures, which it does with money derived from the Treasury. H.R. 2540 would prohibit this and require that SBA sell the debentures to investors. This eliminates Federal outlays since the SBA guarantee is only a contingent liability. In the approximately 25-year existence of this program, SBA has guaranteed $2 billion in debentures and has lost only $36 million. The sale of SBIC debentures was facilitated through establishment of a marketing program for debentures or fractional interests in debentures. The same program for private sale of debentures was established for one year on a pilot basis in hopes that the 503 Certified Development Company Program would receive the same benefits.

In addition to setting program levels which dictate agency spending priorities, the Committee established further policy governing SBA lending. The Committee evidenced concern over SBA's future role in calling for a report on privatizing the agency's 7(a) guarantee loan program and also requiring a report on imposition of increased user fees for assistance to small concerns. The Committee acted to assure that SBA financial assistance would not be subject to certain abuse: no loans are to be available for purposes of abortion clinics or for purposes of promoting abortion.

The Small Business Committee is responsible for assuring participation of small business enterprises in procurement and government contracts and provisions of H.R. 2540 carry out this mandate. One of the initiatives is to assist small concern's efforts to secure their fair share of government procurement, by providing more uniformity in application of labor surplus area procurements; and another is providing better remedies for contract fraud perpetrated in small business set aside and subcontracting programs under the Small Business Act.

A small business authorization bill such as H.R. 2540 provides certain assistance to a part of the small business community. In many cases this assistance is for those who were victims of forces beyond their control. This includes special assistance for minorities, the handicapped and Vietnam veterans, as well as to a community in dealing with pollution requirements, physical disasters such as floods, tornadoes and earthquakes.

In recent deliberations on small business, Congress has found it difficult to decide just what can be done to help foster this most important segment of our economy. This authorization bill will not affect each small business. Except in times of disaster, the overwhelming majority of small businesses in this country do not look to the Federal Government for advice, go to the Government for a loan, or seek to do business with the Federal Government. But small businesses do recognize an advocate in the Small Business Administration and the part the Small Business Committees of the Congress play in assuring policy direction and funding for government-wide assistance to small concerns.

To lessen or terminate Executive Branch responsibility in this effort would be an insult to this group and its contribution. Moreover, it clearly would be counterproductive. The OMB and the White House are trying to put SBA in the closet—they should put it in the Cabinet.

Background

Legislation reported by the Committee which does not become law frequently serves as the basis for the beginning legislative agenda in the succeeding Congress. This situation has been the result of frequent disagreements between Congress and the White House over the need for, and approach to, Federal Government assistance to small and disadvantaged business.

Were it not for the unexpected and unprecedented proposal in the administration's fiscal year 1986 budget, followed by a legislative proposal to terminate the Small Business Administration, this would again have been the case. The Committee would have gone forward with H.R. 3020, last Congress' omnibus small business legislation which did not survive the Conference Committee. (See House Report 98–182, and House action on passage March 15, 1984). Now, the actions of the OMB Director and the constraints of the Budget Act made necessary a swift and positive Congressional reaffirmation of an independent and viable Small Business Administration.

As first made public, the position of the White House and the Office of Management and Budget shocked the Congress and the small business community.

SUMMARY OF ADMINISTRATION'S PROPOSAL TO ABOLISH SBA

The SBA portion of the President's budget indicates that all financial programs would be eliminated at the start of Fiscal Year 1986; that SBA's direct loan portfolio would be liquidated and/or sold by the Treasury Department; and that the agency would be eliminated, with certain functions being transferred to the Commerce Department.

1. Commerce tranfer

Approximately seven hundred employees would be transferred to the Commerce Department with a 1986 budget request of $52.9 million. A new division would be created: "Administration for Enterprise Development and Opportunity". This new division would include the Commerce Department's Minority Buisness Development Agency and the transfer of the following SBA programs: SBIR program; all procurement assistance; innovation and research; minority small business/capital ownership development; advocacy; SCORE and ACE; size standards; and National Advisory Council.

2. Sale of assets

Commencing in Fiscal Year 1986, the Treasury Department would begin selling SBA direct loans to the public. Pending sale, loans in the portfolio would be handled by some one thousand six hundred fifty employees transferred from SBA with a 1986 budget request of $74 million. The total portfolio estimated as of October 1, 1985 is $9.8 billion and the projected sales proceeds between then and the end of Fiscal Year 1990 are $1.83 billion or approximately $19 on the dollar.

3. Business loans

No new direct or guaranteed loans would be made from the business loan and investment fund and the existing portfolio would be transferred to Treasury for servicing and liquidation.

4. Disaster loans

No new disaster loans would be made and the existing portfolio would be transferred to the Treasury for servicing and liquidation.

5. Real estate lease gurantees

This program would be transferred to Treasury which would keep paying claims.

6. Surety bond guarantees

No new guarantees would be made and the existing portfolio would be transferred to Treasury for servicing and liquidation.

7. Pollution control guarantees

No new commitments would be made and the existing portfolio would be transferred to Treasury for servicing and liquidation.

8. Special programs

The office of women's business ownership, veterans affairs, private sector initiatives and international trade would be eliminated.

9. Management assistance

Counseling and training programs, including Small Business Institutes (SBI) and the newly expanded Small Business Development Centers (SBDC), would be eliminated.

10. White House conference

The conference would be organized by the Commerce Department at a cost of $3 million ($2 million already appropriated plus an additional $1 million requested).

Implementation of most of the above as proposed in the Administration's budget would require authorizing legislation. It was introduced in the House by Representative Dreier as H.R. 1461 on March 7, 1985.

THE ASSOCIATIONS' REACTIONS

Congressional reaction to the administration proposal was immediate and overwhelmingly negative. The reaction of the small business trade associations to the proposal to terminate the Small Business Administration was also immediate and united. The Committee appreciated the support received from the associations in its efforts to counter this proposal. Representatives of over 100 business organizations gathered in Washington in late January and came out strongly against OMB Director David Stockman's proposal to eliminate the agency and its financial and management assistance programs. The organizations representing more than five million businesses were deeply concerned that the single agency which supports small business—the sector that creates the greatest majority of new jobs and provides increased competition—was once again under attack by OMB. The coalition expressed outrage that OMB would propose closing the agency, especially since the President had signed legislation calling for a White House Conference on Small Business in 1986 and since the entrepreneurial community already supported a 28 percent budget cut at SBA in 1981. The small business groups listed hereafter worked together to address the distortions involved in the Stockman proposal and publicized the facts about SBA and small business during the fiscal year 1986 budget debate:

Menswear Retailers of America, National Association for the Self-Employed, National Association of Architectural Metal Manufacturers, National Association of Brick Distributors, National Association of Catalog Showroom Merchandisers, National Association of Chemical Distributors, National Association of Cold Storage Insulation Contractors, National Association of Home Builders, National Association of Manufacturing Opticians, National Association of Minority Contractors, National Association of Plastics Distributors, National Association of Plumbing-Heating-Cooling Contractors, National Association of Realtors, National Association of Retail Druggists, National Association of Small Business Investment Companies, National Association of Solvent

Recyclers, National Association of the Remodeling Industry, National Association of Trade & Technical Schools, National Association of Women Business Owners, National Automobile Dealers Association, National Candy Wholesalers Association, National Council for Industrial Innovation, National Electrical Contractors Association, National Family Business Council, National Fastener Distributors Association, National Grocers Association, National Independent Dairy-Foods Association, National Moving and Storage Association, National Office Products Association, National Oil Jobbers Council, National Parking Association, National Precast Concrete Association, National Shoe Retailers Association, National Small Business Association, National Small Business Government Contractors Association, National Society of Public Accountants, National Spa & Pool Institute, National Tire Dealers & Retreaders Association, National Tooling and Machining Association, National Tour Brokers Association, National Wine Distributors Association, Opticians Association of America, Power and Communications Contractors Association, Retail Bakers of America, Retail Floorcovering Institute, Retail Tobacco Dealers of America, Smaller Manufacturers Council, Specialty Advertising Association International, United Bus Owners of America, United Federation of Small Business, Urethane Foam Contractors Association Web Sling Association, American Association of MESBICs, American Association of Nurserymen, American Bus Association, American Optometric Association, American Textile Machinery Association, Amusement and Music Operators Association, Architectural Precast Association, Associated Equipment Distributors, Association of Independent Corrugated Converters, Association of Physical Fitness Centers, Association of Small Research, Engineering & Tech. Service Companies, Automotive Service Councils, Inc., Automotive Warehouse Distributors Association, Building Service Contractors Association International, Business Advertising Council, Chicago Gift Show, Inc., Christian Booksellers Association, Direct Selling Association, Electronic Representatives Association, Florists' Transworld Delivery Association, Furniture Rental Association of America; Greater Wash. Ibero-American CoC, Helicopter Association International, Independent Bankers Association of America, Independent Media Producers Association, Independent Sewing Machine Dealers Association, Institute of Certified Business Counselors, International Franchise Association, International Reciprocal Trade Association, Latin American Manufacturers Association, Machinery Dealers National Association, Manufacturers Agents National Association, Marking Device Association, National Association of Business Development Corporations, Southeastern Lumber Manufacturers Association, National Association of Women Business Owners, Small Business United, Association of Small Business Development Centers, Latin American Manufacturers Association, Smaller Business Association of New England, Smaller Manufacturer's Council, Independent Business Association of Wisconsin, Council of Smaller Enterprises, Small Business Association of Michigan, The Texas Association of Small Business Councils, Denver Chamber of Commerce Small Business Council, New York State Independent Business Associa-

tion, Independent Business Association of Illinois, Independent Business Association of Minnesota, Ohio Small Business Coalition, Small Business High Technology Council.

HEARINGS TO DETERMINE PUBLIC REACTION

The Small Business Committee is responsible for considering the proposal to abolish SBA and submitting its recommendation for consideration and a vote by the entire House of Representatives. As part of this responsibility, hearings were held by the Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems of the House Committee on Small Business on H.R. 1281, legislation to reauthorize the U.S. Small Business Administration for fiscal years 1986 through 1988.

1985 Field Hearings: Fresno, California—March 22; Los Angeles, California—March 23; Portland, Oregon—March 30; Houston, Texas—April 10; New Orleans, Louisiana—April 11; Chicago, Illinois—April 19; Philadelphia, Pennsylvania—April 22.

At these hearings, the Subcommittee solicited the views of small businesses participating in SBA's programs to the administration's proposal to terminate SBA. The views and recommendations from those who actually received help from the agency are very important and supply firsthand knowledge of the effectiveness of the programs and their worth as an expenditure of tax revenues.

Across America, witnesses expressed disbelief that the administration would shut down SBA and its financial assistance and management assistance programs and transfer to the Department of Commerce, the agency charged to assist "large businesses", SBA programs such as procurement assistance, innovation and research, minority small business assistance, advocacy and the Service Corps of Retired Executives.

The Committee was able to translate this proposal in terms small business could understand. No longer would there be a direct loan program which has provided $6 billion in loans to almost 170,000 borrowers. No longer would there be a guaranteed loan program which has provided almost $30 billion in loans to 330,000 borrowers. No longer would there be a disaster loan program which has provided $12 billion in loans to 925,000 victims of hurricanes, floods, tornadoes and other calamities. No longer would there be a surety bond guarantees program which has provided over $11 billion in guarantees to 164,000 small contractors. No longer would there be a pollution control bond guarantee program which has provided $700 million in assistance. No longer would there be an SBIC or MESBIC program which have provided some $2 billion in equity to small businesses, in addition to the $3 billion added from private capital supplied by program participants. No longer would there be a partnership between the government and the private sector, primarily through schools and universities, under the SBI and SBDC programs which in the last two years counseled 100,000 small businesses and provided training for 232,000 more.

At these field hearings, the Committee brought out the shortsightedness of a relatively unknown part of the President's proposal to eliminate SBA. Due to its loan making activities, the agency has a portfolio of direct loans of almost $10 billion. The President

has proposed to sell these loans to improve cash flow. This is nothing more than a conversion of assets and is being done at an exorbitant price. According to testimony from OMB Director Stockman, the Administration's budget proposal includes the sale of $9.8 billion in loan assets over four years, but the projected yield is only $1.83 billion.Thus, taxpayers would expect to receive less than $.19 on the dollar and this would create a windfall for investors under the guise of budget austerity. This was universally condemned as totally unnecessary. In past House SBA authorization legislation, OMB opposed a similar proposal to sell parts of the SBA portfolio, notwithstanding Committee projections of obtaining triple or higher yields on sales than those projected by Director Stockman in his proposal. SBA estimates that if it continues to service this loan portfolio, it would collect 88% of the outstanding monies due or $8.8 billion versus $1.8 billion if it were sold.

Testimony was received on all of SBA's assistance: on the direct and guaranteed business loan programs; the 502 and 503 development company programs; the Small Business Investment Company (SBIC) and Minority Enterprise SBIC (MESBIC) programs; on the nonphysical disaster loan program which provides capital needed by small businesses which are required to meet pollution standards or comply with other Federal laws; the surety bond guarantee program; the pollution control bond guarantee program; the physical disaster loan program which helps victims of floods and other natural disasters; minority small business capital ownership development assistance, especially through the 8(a) program; procurement assistance; and management assistance, particularly through the Small Business Development Center (SBDC) program.

The Committee was gratified at the large and supportive groups of government officials and business people who turned out in support of SBA and its programs. For some of the small concerns it was a consideable sacrifice to be away from their businesses, which increased the effectiveness and value of their testimony about the programs. The SBA was shown to have made a substantial contribution in the localities in which the hearings were held. The number and/or dollar amount of assistance provided by each SBA program in the last two fiscal years follows:

SMALL BUSINESS ADMINISTRATION PROGRAM ACTIVITY AGENCYWIDE

Loan approvals	FY 1983		FY 1984	
	Number	Amount	Number	Amount
General Business	16,769	$2,189,196,145	18,374	$2,552,771,603
Direct and IP	1,381	84,834,001	1,426	89,586,123
Guaranteed	15,388	2,104,362,144	16,948	2,463,185,480
Economic Opportunity	696	46,766,568	799	60,388,660
Direct and IP	326	16,449,090	335	18,614,363
Guaranteed	370	30,317,478	464	41,774,297
Handicapped	169	16,770,810	185	16,777,126
Direct and IP	160	14,971,110	180	16,238,301
Guaranteed	9	1,799,700	5	538,825

SMALL BUSINESS ADMINISTRATION PROGRAM ACTIVITY AGENCYWIDE—Continued

Loan approvals	FY 1983		FY 1984	
	Number	Amount	Number	Amount
Energy	24	3,567,535	12	1,815,186
Direct and IP	6	419,800	3	316,000
Guaranteed	18	3,147,735	9	1,499,186
Veterans	133	8,411,140	294	19,847,530
Direct and IP	133	8,411,140	294	19,847,530
Development Company	1,448	299,274,036	1,614	347,626,480
502 Guaranteed	92	25,733,961	93	30,208,200
503 Guaranteed	1,356	273,540,075	1,521	317,418,280
Investment Company	3,247	468,771,615	3,990	514,084,137
MESBIC	783	55,881,326	1,235	88,535,992
SBIC	2,464	412,890,289	2,755	425,548,145
Disaster Loans	12,237	203,403,670	14,128	313,406,810
Home	10,062	108,061,266	10,493	112,849,550
Business	2,172	94,663,404	2,682	146,182,360
Farm	3	679,000	953	54,374,900
Surety bonds	7,367	556,053,231	7,646	600,568,030
Pollution bonds	4	8,005,000	3	10,915,000
8(a) contracts	4,846	2,259,838,779	4,899	2,569,672,651
SBDC contracts		15,434,325		21,835,044
Total counseled	190,799		219,190	
SBDC counseled [1]	44,624		55,627	
Total trained	393,448		404,314	
SBDC trained [1]	112,229		120,922	
Total employment	3,635		3,553	
Salaries and expenses (includes Dis. Assist.)		123,227,639		127,404,382

[1] SBDC numbers are also included in total numbers.

Note.—Investment company figures are on a calendar year basis. All outyear projects of the agency are prepared on a nationwide basis, and are not available by individual State.

The Subcommittee's series of nationwide field hearings received testimony from over 200 individuals on the program and policies of SBA. Testimony at the field hearings established the extent to which financial and other assistance programs at SBA had played a role in creating and maintaining successful small business enterprises, particularly those owned by socially and/or economically disadvantaged individuals. Entrepreneurs having only minimal personal resources are thereby able to establish businesses and create jobs in economically depressed areas. The Subcommittee heard extensive testimony on SBA's financial assistance programs from profitable, taxpaying businesses that were thought to be "nonbankable" because of insufficient assets, specialized inventory or machinery, or the lack of a credit history.

Summaries of the testimony presented by the small business community to the Subcommittee are illustrative of each locality's rejection of the administration's proposal and of support of the bill. Included as a preface to these summaries is a description of the current status and criteria governing the SBA financial and management assistance programs which the administration proposed to

eliminate and about which the majority of the testimony was concerned. A dialogue on the role these programs play in assisting small and minority businesses and communities in which they are located developed at each field hearing. Witnesses testifying on SBA's procurement assistance programs, in particular the 8(a) Minority Small Business Capital Ownership Development program, foresaw the impossibility of the administration's plan to "transfer" the SBA's small business procurement assistance and advocacy functions to the Department of Commerce, the "big business" agency.

SBA Programs Slated for Termination

SBA business loans in general

A major function of SBA is to make capital available for those small businesses which cannot normally secure financing in the private sector. In addition to its general business loan program, SBA has specialized programs to help businesses owned by socially and economically disadvantaged individuals, businesses owned by or employing primarily the handicapped, businesses owned by veterans, businesses in need of long-term fixed asset financing, and businesses in the area of marketing new energy and energy conservation technology.

SBA's specific lending objectives are to (1) stimulate small business in deprived areas, (2) promote small business' countribution to economic growth, and (3) promote minority enterprise opportunity. SBA business loans help small concerns get started or expand and grow.

Small contractors, manufacturers. wholesalers, retailers, service concerns, and other businesses, including agricultural enterprises, may use SBA assistance to construct, expand, or convert facilities, purchase buildings, equipment, materials or obtain working capital.

SBA may not make a loan if a business can obtain funds on a reasonable basis from a bank or other private source. Applicants must seek private financing from a local bank or other lending institution before applying to SBA.

Most SBA financial assistance is provided in the form of guarantees of commercial loans. Such guarantees can be for as much as 90 percent of the loan up to a maximum about of $500,000. The interest rates on guaranteed loans are negotiated between the borrower and lender, subject in most areas to a maximum of 2¾ percent above the prime rate. In fiscal 1984, SBA approved 19,040 guaranteed loans, the guaranteed portions totalling $2.855 billion.

Applicants who cannot obtain commercial loans, even with a government guarantee, are eligible to apply for SBA direct loans. These loans are in most cases limited to $150,000, and their interest rate is determined by a formula relating to the government's cost of borrowing 12⅛ percent as of July 1, 1985. In fiscal 1984, SBA approved 2,238 direct and immediate participation (part SBA direct, part bank) loans for $144.6 million.

The appropriations process for fiscal year 1985 provided total business loan funds of $210 million in direct and immediate participation and $3.18 billion in guaranteed.

In addition to the SBA's general loan programs there are direct loan programs designed for particular financing purposes.

DIRECT HANDICAPPED ASSISTANCE LOANS

The Handicapped Assistance Loan (HAL) program authorized by Section 7(a)(10) of the Small Business Act has been vital to Goodwill and other organizations employing or owned by disabled individuals. These loans are avilable up to a $350,000 limit under two classifications.

HAL–1 loans are available to nonprofit organizations employing handicapped individuals for not less than 75 percent of the manhours required for the production of commodities or in the provision of services. HAL–2 loans are only available to small businesses wholly owned by handicapped individuals. In addition to direct loans under the program, the SBA may guarantee loans made by a private lending institution to organizations employing or owned by disabled persons.

In many ways, Goodwills are small businesses and face all the problems that both small businesses and nonprofit organizations are experiencing. Yet, at the same time, Goodwills operate to fulfill the important social purpose of enabling disabled individuals to lead full and productive lives. Without the assistnce of the HAL money, many Goodwills would not survive and the resulting loss of jobs for disabled people would result in costs to the taxpayers significantly higher than the Federal expenditures for the loans. Additionally, it should be noted that unemployment among disabled Americans is as high as 50 percent. The survival of Goodwills, capable of employing these individuals, is extremely important today.

The HAL program is an investment in the potential of disabled Americans who otherwise would not have found employment. This investment is returned many times over through the increase in earnings of disabled persons and the reduction in the cost to the Government of supplemental payments and benefits.

The appropriations process for fiscal year 1985 provided $24 million for these direct loans.

DIRECT ECONOMIC OPPORTUNITY LOANS

Pursuant to section 7(a)(11) of the Small Business Act, SBA is empowered to make or guarantee loans to small business concerns located in urban or rural areas with high proportions of unemployed or low-income individuals, or which are owned by low-income individuals. These loans, commonly referred to as Economic Opportunity Loans (EOL's), have the same terms, maturities and restrictions on the use of proceeds as SBA's regular business loans.

In past years, the administration budget requested EOL guarantee levels greatly in excess of the then Congressionally set levels of $60 million ($176 million in each of fiscal years 1982 and 1983). SBA's record cannot be recognized as any indication that EOL guaranteed loans could substitute for EOL direct loans: EOL guarantee loan activity for fiscal year 1983—$30.5 million, fiscal year

1984—$41.2 million; and through April of this year $27.8 million. The Fiscal Year 1985 appropriation for EOL loans was $45 million for direct loans and $60 million in guarantees.

It is necessary to maintain a direct EOL loan program. The Committee remains convinced that there are deserving entrepreneurs frozen out of any opportunity at private financing. That low income or social or economic disadvantage denies the opportunity to acquire sufficient business financing through normal lending channels or on reasonable terms.

DIRECT VETERANS LOANS

In recent years, there has been increasing interest in how SBA programs can serve the needs of veterans and, in particular, of Vietnam-era and disabled veterans. The Committee has strongly supported efforts to improve the delivery of SBA services to the veteran community. In fact, as long as January, 1974, legislation was approved which provided that veterans were to receive "specical consideration" in all SBA programs. Regrettably, this provision, included in Public Law 93-237, was all but ignored in some parts of the country until relatively recently, when additional legislation made it clear that the Congress was willing to reserve funds for the exclusive use of Vietnam-era and disabled veterans.

The new Veterans Administration business loan program was authorized by the Veterans Small Business Loan Act of 1981, Title III of Public Law 97-72, which was approved on November 3, 1981. However, the Reagan Administration has opposed implementation of this program, and as a result no funds have been available since its enactment. Instead, the Congress reserved direct loan funds in the existing SBA general business loan program for the exclusive use of Vietnam-era and disabled veterans. This was first done by Public Law 97-377, approved on December 21, 1982, which set aside $25 million during fiscal year 1983, an amount equivalent to that authorized for the unfunded VA business loan program.

The Reagan administration persisted in its efforts to block funding for this program and froze all SBA direct loan funds by requesting their deferral. This request was rejected by the House on March 10, 1983 with the approval of the impoundment resolution, H. Res. 73. As a result, direct loan funds finally became available. Unfortunately, by the time funds were allocated and instructions were issued to SBA field offices about the new SBA veterans loan program, more than half the fiscal year had been lost; and at the conclusion of fiscal 1983, only $8 million in loans had been approved, or less than one-third of the $25 million which was available.

During fiscal 1984, $25 million was again made available by SBA's regular appropriations act, Public Law 98-166, which was approved on November 28, 1983. Of this amount, $19.7 million in loans were approved. Also an additional $19.2 million in direct loans to Vietnam and disabled veterans were approved through the agency's other business loan programs. SBA's 1985 appropriations act, Public Law 98-411, approved on August 30, 1984, again reserves $25 million exclusively for direct veterans loans.

Although the appropriations process has continued to provide funds for this important program, the Committee believes that a regular multi-year authorization for veterans loans should be enacted to ensure that resources will continue to be reserved for the exclusive use of veterans. The Committee recommended and the House approved by a vote of 386–11 on March 15, 1984 the first separate line-term authorization for SBA veterans loans. This provision, included in H.R. 3020, would have authorized $30 million in direct veterans loans in fiscal 1985 and $31.2 million in fiscal 1986. A similar Senate bill, S. 1323, provided for $25 million in 1985. Unfortunately, a conference to resolve the differences in the two versions of the bill did not meet because of administration opposition, and no new regular authorizations for veterans loans were enacted in the 98th Congress.

POLLUTION CONTROL FINANCING GUARANTEES

Congress recognizes that small businesses, because of their generally limited credit history and the smaller size of their financing requirements, often are unable to obtain long-term, low-interest rate financing through revenue bonds. The high cost and *nonproductive* nature of *required* pollution control facilities are often more than small businesses can be expected to handle. Therefore, Congress authorized SBA, commercial banks and State authorities to make long-term low-interest financing available to well-established small businesses in much the same manner the corporate giants obtain financing for pollution control facilities: through sale of tax-exempt, pollution control revenue bonds issued by a State or municipal authority. This is made possible through SBA's guarantee of the small concern's obligation under a contract involving the facility.

Through this program, small business obtain long-term (up to 30 years) and low-interest rate financing for required pollution control facilities.

On December 31, 1981, SBA announced its decision no longer to approve guarantees for contracts which involve projects constructed with proceeds of tax-exempt Industrial Revenue Bonds. Despite Congressional statements that this was contrary to the intent of the statute, SBA has consistently refused to restore the availability of such guarantees for tax-exempts.

However, last year's Continuing Resolution, P.L. 98–473, corrected this situation and mandates SBA again to guarantee tax-exempt financing in this program. From inception through Fiscal Year 1984 the aggregate amount guaranteed in the Pollution Control Financing Program is over $679 million.

The SBA Pollution Control Guarantees Program has played a vital role in minimizing the discrimination small businesses have traditionally faced. Investors view these concerns as high risks and are therefore reluctant to provide them with capital to finance pollution control facilities. By making guarantees available to these firms, the SBA program has enhanced the financial attractiveness to lenders of providing financing to small businesses, thereby enabling them to comply with environmental requirements.

Since its inception, this SBA Guarantee Program has been a revenue raiser through the fee SBA levies on businesses using the guarantee; it is self-sustaining and fosters economic activity throughout the country.

DEVELOPMENT COMPANY GUARANTEED FINANCING

The Small Business Administration's 503 lending program, established in 1980 by section 503 of the Small Business Investment Act, provides long-term, fixed asset financing to qualified small businesses through local development companies certified by the SBA. The program is designed to work in conjunction with private sources of funding. It enables private lenders, such as banks, to provide adequate financing to small firms needing facilities in which to set up a new business or expand an existing one. The focus of the 503 program is job creation and economic revitalization through private/public partnerships.

Since its inception, the 503 program has issued $703 million in debentures, which in turn has leveraged more than $1 billion in private capital to create nearly 100,000 job opportunities throughout the country, at an average federal investment of $7,394 per job.

SBA's investment—up to 40 percent of a project's total cost—makes a financing package affordable to small companies by lowering the combined interest rate (503 loans are made at Treasury bill rates plus ¾ of one percent for servicing), and by extending repayment terms (503 loans are made for up to 25 years; bank loans issued in conjunction with the 503 loan must be for at least 10 years.) Many banks have stated publicly that such long-term financing would not be possible without the 503 program and others like it.

The 503 program's impact is much greater than its size would initially suggest. In fact, the program and its predecessor—the 502 loan program—have been the cornerstone of many local and state economic development programs for the better part of a decade. Recognizing the inherent inability of a small business to tap into this nation's long-term capital markets, the 503 program permits a community to initiate its own economic development activities to overcome this structural disfunction in our economy. Also, recognizing the scarcity of public resources, the 503 program is designed to supplement, not supplant, private sector financing from conventional institutions.

In establishing the 503 program, Congress made CDCs a major partner sharing responsibility for loan origination, packaging, closing, monitoring and servicing. In order to become a CDC, an organization must demonstrate broad and active community support and professional staff resources. Many local and state public officials believe economic development in their areas would come to a virtual halt without the 503 program.

Economic revitalization of cities and rural areas alike is the direct result of projects financed in part by the 503 program. Close to 100,000 jobs have been created or preserved as a result of this program—jobs that add to the nation's employment, tax revenues, and economic well-being.

The fiscal year 1985 appropriated levels for Development Company Financings was $5 million in direct loans and $450 million in guarantees.

SMALL BUSINESS INVESTMENT COMPANIES

Congress created the Small Business Investment Company (SBIC) program in 1958. SBICs are investment firms licensed and regulated by the Small Business Administration. They provide equity capital, long-term loans and management assistance to new and growing small business concerns. SBICs are privatey-organized, privately-capitalized and privately-managed.

Over the past twenty-six years, SBICs have been authorized to obtain money for the Federal cost of borrowing funds. They then add five or six percentage points to the cost-of-money and make it available either in the form of long-term debt or long-term debt accompanied by warrants which entitles them to a share of the small business being financed, or possibly by simply acquiring up to one-half of the ownership of the business being helped.

At the present time SBICs are investing more of their private dollars than SBA has made available in leverage. In calendar 1984, SBA provided $175 million to SBICs while the industry invested a total of $425.5 million in almost 3,000 small concerns. Thus the Federal Government is able to increase financial assistance being provided to the small business community by channeling its funds through the SBIC industry rather than channeling it directly to small business. Small concerns need venture capital, and the Nation needs the SBICs' proven job creation potential of 65,000 new jobs each year.

The fiscal year 1985 appropriation levels for SBICs was $265 million in guarantees of debentures.

MINORITY ENTERPRISE SMALL BUSINESS INVESTMENT COMPANIES

Minority Enterprise Small Business Investment Companies (MESBICs) are SBICs which specialize in providing equity funds, long-term loans, and management assistance to small business concerns owned by socially or economically disadvantaged persons. MESBICs are governed by the small regulation as SBICs, with some modifications.

The MESBIC agrees to make investments solely in small business concerns which will contribute to a well-balanced national economy by facilitating ownership in such concerns by persons whose participation in the free enterprise system is hampered because of social or economic disadvantages.

Under the Small Business Investment Act of 1958, MESBICs are eligible for up to four tiers of leveraging from the SBA on their invested private capital. This private/public sector partnership serves to maximize the pool of funds available for investment in the minority small business community.

Since 1976, the MESBIC industry invested almost $400 million in 4,772 minority businesses. The jobs created or maintained by those investments in the latter half of that period alone totalled over 75,000. Maintaining the authorization for MESBICs in fiscal years 1984 through 1988 is an important statement of support for the

MESBIC industry and stresses the Committee's belief in the importance of policy continuity regarding the industry.

The fiscal year 1985 appropriation for the MESBIC program was $47 million in direct funds.

SURETY BOND GUARANTEES

Small business contractors and subcontractors who seek public (and some private) construction jobs are often required to furnish surety bonds. SBA can assist such contractors by extending a guarantee to a surety of up to 90 percent against loss in order to make bonding more easily obtainable. Bid bonds as well as payment and/or performance bonds may be guaranteed on contracts of up to $1,000,000. SBA may also pay a surety up to 10 percent of the value of the contract in order to prevent a breach of that contract when such a breach is imminent.

The surety company pays SBA a guarantee fee of 20 percent of its bond premium. The small business contractor or subcontractor pays SBA a guarantee fee of 0.5 percent of the contract price upon obtaining it.

All general, special trade (such as electrical, plumbing, heating, etc.) and service contractors whose gross annual receipts do not exceed $3,500,000 are eligible.

Surety companies eligible to receive SBA's guarantee must be included on the U.S. Treasury Department's list of qualified sureties.

In fiscal year 1984, $571 million in surety bond guarantees were extended. The appropriations process for fiscal year 1985 set the SBG program level at up to $1.115 billion in guarantees.

MANAGEMENT ASSISTANCE

SBA's management assistance programs support SBA loan recipients and other small business owners/managers through individual counseling, management training and publication of guidance materials. These programs are keyed to furthering the establishment, growth and success of small businesses. It is estimated that managerial deficiencies cause nine out of ten business failures.

The SBA programs can identify management problems, develop solutions and help implement and expand business plans. In addition to its own professional management assistance officers, SBA relies heavily on national volunteer organizations such as SCORE (Service Corps of Retired Executives) and ACE (Active Corps of Executives) to expand its capability for individual counseling. More than 300 colleges and schools of business throughout the Nation also provide personalized counseling at no charge through SBA's Small Business Institute (SBI) Program.

An important addition to SBA's management assistance capabilities has been the Small Business Development Center (SBDC) Program. The SBDC program is a cooperative effort by universities, the Federal Government, State and local governments, and the private sector to provide specialized management and technical assistance to the small business community. Started on a pilot basis at one university in December 1976, the program expanded in 1984 to 36 statewide operating SBDCs in 35 States and the District of Columbia. Additional centers are located throughout the States at col-

leges, universities, and local government offices, as well as in selected locations, such as downtown storefronts, easily accessible to small business clients.

The Subcommittee was most impressed by the testimony which portrayed SBA as the only source of assistance to so many small concerns—truly fullfilling its role as "lender of last resort".

> I am certain that I would not have been able to start the business without the SBA.

So testified Mr. John Yeh, owner and president of Integrated Microcomputer Systems, Inc., a Rockville, Maryland high technology firm engaging in computer systems engineering, software development, office automation and telecommunications. Born deaf, Mr. Yeh immigrated to this country from Taiwan at age 15, knowing no English, and he started the company in 1979 with a $100,000 direct loan from SBA. Integrated Microcomputer Systems has had phenomenal growth, now employing 175, 50 percent of whom belong to minority groups and 20 percent of whom are deaf.

> . . . SBA is a net asset to our economy (when) jobs, tax revenues and other measures are hung in the balance.

Mr. Theodore Holmes, president of Chicken George Chicken in Baltimore, told us his firm currently operates 13 restaurants, and has begun to franchise with agreements signed for stores in 14 new areas. The minority-owned firm began with a $25,000 direct loan from SBA, and now has sales in excess of $9 million with more than 350 employees. Chicken George's growth has been steady in this highly competitive industry dominated by a handful of national chains with enormous marketing resources.

> The Small Business Administration makes money, it creates jobs, it builds businesses through opportunities, and does, in fact, perpetuate the American dream . . . The SBA must continue.

According to Mr. Fred Ruiz, president of Ruiz Food Products, a Tulare, California frozen Mexican food concern, the company in 1975 employed 15, had annual sales of $300,000 and a processing plant with 1,500 square feet. At that time USDA regulations nearly forced its closing, but a direct SBA loan enabled expansion into a new plant. Today, Ruiz employs 300, has annual sales of $18 million and a processing plant of 50,000 square feet. Its payroll is in excess of $3.5 million and its annual payroll taxes alone are far in excess of the original SBA loan.

> . . . I cannot emphasize enough that we would not be in business if it was not for the SBA . . .

So testified Mr. Steven Pfeiffer of Mountain Equipment, Inc., in Fresno, California, recipient of a SBA direct loan. This dynamic young company manufactures technical backpacks, travel packs, day packs and high quality soft cases for portable computers and printers. It markets throughout the U.S. as well as in Canada, Europe and Australia. The firm now employs 40, is growing at a 25 percent annual rate and successfully competes against large businesses.

> If it had not been for the Small Business Administration, . . . Ellis Food Processing would have been history many years ago.

Mr. Charles Ellis of Ellis Food Processing, Inc., a successful minority-owned poultry processing business in Delano, California, told us its customers include 18 Department of Defense installations in the U.S. and Far East, the Department of Agriculture, school districts in California and Louisiana and commercial accounts throughout the nation. Ellis now employs 168 and processed more than 4,000 *tons* of turkey last year. According to Mr. Ellis, in 1956 there were 1,500 processing plants in California; today fewer than 1 percent remain. His firm was also on the verge of closing, but SBA direct loan assistance enabled him to survive and prosper.

> . . . without SBA's help, we would never have been able to buy such an expensive piece of equipment.

Mr. Lloyd George of L.D.G. Timber Enterprises in Oakhurst, California explained that his company has developed innovative and environmentally sound techniques in harvesting timber as well as in conducting clean-up and reforestation operations. It has also pioneered the profitable processing of timber which previously went to waste, thereby conserving precious natural resources. In so doing, it has created and filled a niche in the timber industry and provided valuable services for the Forest Service while protecting public lands held in trust. L.D.G.'s operations were made possible with specialized machinery financed by a direct loan from SBA. Since this loan was approved, the company has grown and proved highly durable in a volatile industry dominated by a few large concerns.

> Its my opinion that without recourse such as the SBA, we would not have been able to survive as a business enterprise . . .

Mr. Frank Lucas, precident of Leadtec California, Inc., testified that SBA's direct loan enabled his firm to keep over 200 people working. Located in San Fernando, California, the company processes raw piece goods into consumer products such as jeans and sweat shirts for nationally known, brand label apparel distributors. Beset by a flood of Asian import competition beginning in 1976, the company exhausted all its working capital in changing product lines and retraining its personnel. A SBA direct loan enabled the company to survive that difficult adjustment period. Today, Leadtec employs more than 200 in one of America's few remaining craft industries, and it successfully competes against foreign imports, keeping these jobs in America.

> I would not have had a chance to do this had it not been for the SBA.

Mr. Robert Ozuna, president of New Bedford Panoramex, an engineering and electronics company in Santa Fe Springs, California, attributes his company's success to SBA. The firm designs and manufactures electronic controls and control systems for the oil, power and mining industries. Its customers also include government agencies such as the Air Force and the FAA. The firm start-

ed with 1 employee and annual sales of $22,000. Subsequent to a direct loan from SBA, it has grown to employ 55 with sales of $6 million.

> Without that money I doubt that we would be in business today.

According to Mr. Luther Clevinger of the White Buffalo Construction Company in Aumsville, Oregon, his business was unable to obtain bank financing in 1980 because it had only a 3-year track record. A direct loan from SBA provided much needed working capital and allowed for the purchase of new equipment. The company now employs 34, and its sales have more than doubled to $900,000 since its original SBA loan. Recently, White Buffalo was able to obtain a guaranteed bank loan for the purchase of additional equipment, having demonstrated its capabilities and moving a step closer to being able to obtain private sector financing on its own.

> The SBA provided us with a direct government loan to purchase a building and land giving us the working space we needed. This allowed us to seek larger and more profitable projects.

Mr. Manuel Salinas, owner of MASCO Mechanical Contractors, Inc. in Houston, told us the business tripled its employment from 12 to 36 after receiving a SBA direct loan for $80,000. This heating, ventilation and air conditioning firm had been unable to obtain financial assistance for expansion from commercial lenders, but now has sales in excess of $2 million with a payroll in excess of $500,000.

> . . . stories like ours would not be possible without a lending agency such as the SBA whose objectives and priorities differ considerably from those of most commercial lenders.

So testified Mr. Michael F. Squyres, president of Wayne True Value Home and Hardware in Wayne, Pennsylvania. The company survived an unexpected change in its commercial bank's lending policy with SBA direct loan assistance. When the business was less than 2 years old, its bank "called" the company's short term credit line even though it had never missed a payment and had met all projections in its business plan. Because of this action, Wayne True Value Hardware was unable to obtain alternative commercial financing. SBA was able to provide a $150,000 direct loan, and now this business which had been turned down by ten commercial lenders in its time of need has sales of $1.5 million, employs 22 and expects to open a second location soon.

> As a businessman, I think that it is truly in the best interest of this country, its citizens, and its economy that the SBA's direct loan program is not only maintained but expanded.

So testified Mr. Earl Edwards, president of Care & Emergency, Inc., an ambulance and paratransit company serving Philadelphia and surrounding areas. Started with SBA direct loans of $10,000

and $70,000, this firm now has 60 vehicles, employs 120 and is one of the largest ambulance services in Pennsylvania. In addition to providing vital services in the communities it serves, Care & Emergency also provides specialized training and education for many of its workers who become Certified Emergency Medical Technicians.

SBA solved all these problems for us.

Mr. William Eells, president of the Act Service Corporation in Philadelphia, told us of the need for his company to grow in order to survive. The firm collects and disposes of solid wastes, both hazardous and non-hazardous. This Vietnam veteran owned business was able to purchase new trucks and computer equipment with SBA direct loan assistance. This expansion resulted in an increase of employees from 20 in 1980 to 35 currently. Financing was not available from commercial banks, even though the family-owned business had been in existence since 1946 and had a proven track record.

> I feel that the assistance that I have received from the Small Business Administration has helped me a great deal, and . . . (without it) I would not have the business I have today.

Mr. Rosendo Diaz, Jr., owner of Jensen Movers & Storage Company in Philadelphia, was expelled from Cuba in 1964 and arrived in the United States a penniless refugee. He began a part-time moving business while holding down other jobs, and in 1967, he was able to purchase Jensen Movers with the help of a direct loan from SBA. Since then, the firm has grown to an operation with more than 50 employees, 17 trucks and 2 warehouses.

> I am absolutely convinced that my company would not be here today were it not for the presence of SBA.

So testified Mr. Robert Parmley, president of Tempo 21, Inc., a highly successful lawn care service in Wheeling, Illinois founded in 1972 by two Vietnam-era veterans. The firm grew from 516 accounts and $27,000 in sales its first year to 9,847 accounts and more than $1.1 million in sales in 1978. Despite this impressive growth and repayment of previous bank financing, the company could not obtain additional working capital for expansion because of a change in its bank's lending policy. After being turned down by other commercial lenders, Tempo 21 was able to secure a SBA direct loan for $133,000 in 1979. In the next year, its business grew 40 percent; in 1981, the company opened its third office; and in 1983, its fourth. Now, its SBA loan is paid in full, and Tempo has 51 employees, more than 17,000 accounts and $2.6 million in sales.

> The SBA is a vital part of this (small business) community. To close it is like an act of suicide. As a country, we are only hurting ourselves; especially when our foreign competitors are all being helped by their governments.

Mr. Wesley Wedge, president of the Wedge Company in Des Plaines, Illinois, explained that his firm is a small manufacturer of specialized construction equipment, including concrete cutting saws and grinders and safety drilling machines for the highway and

bridge building and repair industry. Subsequent to the Surface Transportation Act, a huge market for bridge repair has opened, with an estimated 100,000 bridges in the U.S. needing serious work. The Wedge Company was in an excellent position to capitalize on this market with its expertise and experience, but despite its excellent track record and repayment of prior bank financing, the company was unable to obtain a commercial loan to enable the design and development of new equipment to effect efficiencies in bridge repair. SBA has approved a direct loan which will enable the company to pursue this development, which in addition to helping the firm itself could save substantial sums of taxpayer financed repair dollars.

Witness after witness told the Subcommittee of their experience with SBA's programs. There emerged much the same story as that above about the results of all of SBA's assistance programs: small firms are given a chance they would not otherwise have had to grow and prosper. Brief synopses of fifty of these stories follow:

The Datametrics Corporation in Chatsworth, California, manufactures high quality printer/plotters for the communications, command and control requirements of the Army, Navy, Air Force and more than 40 prime contractors. It also supplies printers to 22 commercial airlines and was recently awarded a contract by Japan Air Lines (JAL). In 1973, Datametrics had sales of $840,000 and employed 18 with a annual payroll of $300,000. The company has grown steadily since and SBA guaranteed loan was approved, and in 1984 it had sales of $13.5 million and employed 240 with an annual payroll of $6 million. Datametrics also benefited from SBA's Certificate of Competency (COC) Program.

Brasher Brothers, Inc., in Burbank, California, is engaged in egg products processing and marketing. Unable to obtain commercial financing for extensive plant remodeling required by the Egg Products Inspection, Act, the firm faced closure. However, SBA approved a direct regulatory compliance loan which enabled Brasher Brothers to meet government requirements, and the company survied and prospered. In 1984, Brasher Brothers had sales of $14 million and employed 70, providing a reliable outlet for egg producers and a quality source of supply for the food industry.

In 1977 the Burbank Plating Service Corporation in Burbank, California, was unable to meet requirements of the Clean Water Act in its old facilities and would have been forced to close without new and expensive production and pollution control equipment. An SBA loan for $400,000 enabled the company to purchase this equipment, comply with government regulations and stay in business. Since the loan was approved, Burbank Plating's sales have more than doubled to $1.5 million and it now employs 29, 65 percent of whom belong to minority groups.

Pacific Rents is a family-owned company in Los Angeles which rents and sells durable medical equipment and oxygen to homebound patients. Since 1977, SBA-guaranteed loan assistance has enabled the firm to expand to six locations with sales increasing from $1.3 million to $4 million and employment growing from 26 to 62. Pacific Rents is now a leader in its industry and continues to grow while providing important health care services.

Matthews Studio Equipment, Inc., in Burbank, California, is the leading manufacturer and marketer of "grip" equipment which is used to mount cameras, diffusion elements, backdrops, lights, and other items necessary in film and television production. This innovative company has disigned and developed new state-of-the-art equipment including a highly sophisticated electro-mechanical remote control camera mount and a lightweight, portable crane which won the 1983 Technical Achievement Oscar. Beginning in a garage, with SBA-guaranteed loan assistance, Matthews Studio Equipment has grown from $200,000 in sales in 1977 to $5 million in 1984. The firm employs 50 and has more than 600 items in its catalogue which are now sold throughout the United States and in Canada, Mexico, Latin America, Europe and the Far East.

The Petko Paint Company, Inc., in Walnut, California, was started in 1975 by an immigrant from Yugoslavia after he had worked five years for other painting contractors. The young company was unable to obtain the bonding required in order to bid on and perform most government contracts. Through SBA's Surety Bond Guarantee Program, Petko was awarded its first bonded contract for only $11,000. With the continued help of this program, the company was able to obtain larger and larger contracts so that now, with sales of approximately $1 million, Petko no longer needs the SBA bond guarantee and has "graduated", fully able to compete on its own in the marketplace. The company's payroll exceeded $500,000 in 1984.

Nu-Way, Inc., is a supplier of ornamental and other iron products to builders in the Houston area. Started in 1977, the firm enjoyed several prosperous years until it experienced a loss in 1981 due to the recession which hit the building industry particularly hard. After two more years of sluggish profits linked to the recession, Nu-Way was in need of working capital to take advantage of improved market conditions. The Company's commercial bank changed ownership, and its new lending policy would not accomodate Nu-Way's needs. An SBA loan guarantee at a new bank enabled the company to recover from the effects of the recession, stage a comeback and provide employment for 50.

Software Galeria, Inc., in Houston is a computer retailer that provides microcomputer software, hardware, supplies and services. This minority-owned business began with an SBA guaranteed loan; and despite fierce competition and difficult business conditions in an economy closely linked to the sagging oil and gas industries, Software Galeria grossed more than $500,000 in its first year. Its customers include NASA, the State of Texas, the City of Houston, public utilities and a variety of commercial accounts.

W de Y Associates, Inc., is a minority-owned management consulting firm in Houston. With more than 40 full-time employees, the business has received important contracts from NASA and has been concentrating in information systems design and development, aerospace research and development, and telecommunications consulting. With procurement assistance through SBA's Capital Ownership Development Program, W de Y Associates has shown that, given the opportunity, a small and disadvantaged business can get the job done.

The Merida restaurant in Houston began in 1976 with an SBA-guaranteed bank loan. The operation was successful, and the SBA loan was repaid in full; but despite a proven track record and repayment of prior loans, the business was unable to obtain additional commercial financing to expand. SBA again provided guarantees, and today Merida has three locations, all doing well.

The King Saver grocery store in Missouri City, Texas, is a family-owned operation which began in 1969. In 1984, the business lost its lease and faced closure. Its principal, then a 65 year old widow, and her family were unable to obtain commercial financing to relocate; but financing through SAB's Small Business Investment Company (SBIC) Program allowed the store to reopen and increase employment from 27 to 62, all of whom would have been unemployed without this assistance.

Schultz & Lembo, Inc., a general contractor in Houston, began in 1980. Although its principals had considerable experience in the construction business and an excellent track record, the new firm was unknown and it was impossible to obtain bid bonds which are required for most construction projects. SBA's Surety Bond Guarantee Program enabled the business to get started. Its initial SBA-guaranteed bonds were for less than $100,000, but within 18 months, Schultz & Lembo had "graduated" into the standard bond market and no longer needed an SBA guarantee. Today, the firm has a standard bonding line in excess of $6 million, and steadily employs 50–70, an achievement which would not have been possible without SBA's surety bond program.

HyClone, Inc., in Conroe, Texas, specializes in the commercial application of plant tissue culture technology to the clonal propagation of plants. The firm currently propagates a line of more than 60 varieties of plants which are shipped throughout the United States and views its cloning technology as an important tool for the genetic improvement of agricultural crops. Both start-up capital in 1981 and expansion financing since then were provided through the SBIC program. HyClone, Inc., currently employs 63 and will expand to 100 employees during 1985.

Skyhawk Construction Company in Houston had been a successful subcontractor when its principal attempted to obtain bonding in order to bid directly on prime contracts. The woman-owned firm was unable to find bonding in the standard market despite its experience; but through SBA's surety bond program, bonds were approved and business has doubled in each of the last three years. Skyhawk's employment has increased from 5 to 25, and it expects to soon be able to "graduate" into the standard bond market.

Torino Belts, Inc., in New Orleans is a designer, manufacturer and distributor of a complete line of high quality men's and women's leather belts, wallets and other fine small leather accessories. Forced to relocate by a bridge construction project, the firm used SBA's Certified Development Company Program to reestablish its operation while conserving vital working capital. In the last two years, Torino's business increased by 50 percent, and employment went from 27 to 35, 24 of whom belong to minority groups. The company's product is sold in all 50 states and in Europe and Japan.

The Whole Food Company operates two retail specialty food stores in New Orleans. Begun in 1974 with $3,000 and 2 employees, the company had sales of $180,000 in its first year. Business grew steadily, but when its 22 year old owner sought financing for a second location, commercial lenders were not interested. With the help of SBA's 502 program, Whole Food opened its second store, and today the operation has 97 employees and annual sales of $5.4 million. The company has played an integral part in developing its community, acting as a magnet for new residents and business development in older neighborhoods, and its owner plans to open additional locations soon.

Technical Compression Services, Inc., in Belle Chasse, Louisiana, serves the oil and gas industry in the design, manufacture, installation and service of pneumatic, electronic and hydraulic control systems. It also has full service capabilities for the repair and maintenance of natural gas engines and compressors. The company's predecessor was a division of a large firm which was to be closed in 1975. With the help of a $70,000 SBA-guaranteed loan, three entrepreneurs were able to purchase the business which in 1976, its first year of independent operation, had sales of $820,000. By 1984, sales had grown to $8,346,000 and Technical Services employed 95 with a payroll of $31 million.

Ran-Der Industries, Inc., in Morgan City, Louisiana, supplies drilling compounds and other services to the oil and gas industries. Begun in 1974, this minority-owned business experienced rapid growth but was unable to obtain from commercial banks the working capital it needed to sustain this growth; its very survival was threatened. In 1979, Ran-Der qualified for a $500,000 SBA-guaranteed loan. Since then, the firm has increased employment from 34 to 63 and paid more than $2.3 million in payroll and corporate income taxes, almost six times the original principal of its SBA-backed loan in which no government outlays were required and which will be fully repaid in one more year.

A.M.E., Inc., in Norco, Louisiana, is a minority-owned business in the industrial cleaning and waste disposal business. Its clients range from large oil refineries and chemical plants to the New Orleans airport. Begun in 1978 with one employee and a $450 a month janitorial contract, the firm received SBA financial, bonding and management assistance. A.M.E. now has sales of $3 million and 300 employees, nearly all of whom were hired from unemployment roles.

Minority Engineers of Louisiana (MEL), Inc., in Baton Rouge, Louisiana, is a consulting engineering firm with expertise in the civil, structural, mechanical and construction engineering disciplines. Although started in 1972, the firm had difficulty in its early years in obtaining financing and government contracts. After it was accepted for participation in SBA's Capital Ownership Development Program in 1980, MEL soon demonstrated its capabilities in the government market. Sales increased from $1.4 million in 1980 to $4.7 million in 1984; employment rose from 33 to 106 in the same period. The firm is now preparing for its "graduation" from the 8(a) program in 1986, having established a sound track record from which it can continue to grow.

Computer Systems and Consultants, Inc., in Baton Rouge, Louisiana, provides basic computer services including the design and development of software, the acquisition and installation of hardware, training and maintenance. Begun two years ago, its principals targeted three major markets: the medical and health care industries, the legal profession and municipal governments. The young firm turned to SBA's Small Business Development Center (SBDC) Program for professional management assistance counseling. The SBDC helped Computer Systems to develop a set of financial projections and to complete a comprehensive business plan. As a result, the company secured the commercial financing necessary to turn its goals into reality.

Hydro-Air, Inc., in Arabi, Louisiana, is an industrial construction contractor specializing in water projects and sewage treatment plants. Begun in 1977, the firm found it virtually impossible to obtain government contracts without bid and performance bonds which were not available in the standard markets to contractors without a long track record and substantial resources. In 1979, Hydro-Air received its first surety bond guarantee through SBA and was able to bid on government work. In 1982, the company had grown to 43 employees, and having established a successful track record, "graduated" from the SBA program, no longer needing a government guarantee to obtain bonds and providing tax-dollar saving competition to larger entrenched government contractors.

Cucos is a small but growing chain of Mexican restaurants headquartered in Metairie, Louisiana. Financial assistance through SBA's SBIC program enabled the firm which began in 1981 to transform a losing steak house operation to a productive, expanding business. Today, Cucos has six company-owned and three franchised restaurants in three states, with 600 jobs created or retained. Cucos plans to open 13 new stores in the next year, employing 850.

Mid-America Environment Service, Inc., is a hazardous waste management firm in Riverdale, Illinois. In 1983, financial problems threatened its closure; but with the help of an SBA-guaranteed loan, the business was purchased by a new owner. With additional SBA financial and management assistance. Mid-America's sales have increased from $600,000 to $5 million in only two years, and employment has increased from 6 to 50. Mid-America is now opening a new location in Michigan which is expected to double its sales and employment next year.

James H. Lowry & Associates (JHLA) is a minority-owned management consulting firm headquartered in Chicago. Founded in 1975, it was accepted into SBA's 8(a) program in 1979. Its sales grew from $750,000 in that year to $3.4 million in 1983. Two new offices were opened and employment increased from 5 to 55. Although federal contracts were vital to the firm's development, JHLA has successfully penetrated other markets, with nearly half of its sales attributable to the private sector in 1983. In fact, despite its impressive growth, JHLA's percentage of sales to the federal government has actually decreased from 65% in 1979 to only 21% in 1983, while sales to the private sector increased from 5% to 46% in the same period.

The McCullough Cartwright Pharmaceutical Corporation in Barrington, Illinois, specializes in the research, development and marketing of products in the animal health and veterinary fields. Capitalized through the SBIC program in 1984 and 1985, the firm currently markets more than 65 products, and it employs 25, a number which is expected to double by 1987. Its seven manufacturing subcontractors employ 200–250 more. The SBIC program has also provided important management assistance to McCullough Pharmaceutical.

R&E Electronics, Inc., in Wilmington, North Carolina, is a communications systems integrator whose customers include both government agencies such as the Air Force and private concerns such as DuPont. R&E received financing through SBA's MESBIC program and is also a certified 8(a) contractor. The firm has also received SBA surety bond guarantees and management assistance. As a result, R&E has grown from a one-man operation with $36,000 in sales in 1974 to a firm with 6 offices, 75 employees and $10 million in sales. Its payroll has increased from $10,000 to $3 million.

The Dixie Yeast Corporation in Gastonia, North Carolina manufactures fermentation-based products, including compressed bakers yeast for the baking industry and health food products. Begun in 1978, the company had numerous start-up problems, but with the help of SBIC financial and management assistance, Dixie now employs 65 and has sales of $12 million, successfully competing against food industry giants.

K-Com Micrographics, Inc., in Vienna, Virginia, is a state-of-the-art micrographics company specializing in the production of computer output and source document microfilm and the provision of quality microfilm services. K-Com is a minority and woman-owned business founded less than two years ago with financial and management assistance provided through SBA's MESBIC program. It already has ten professional employees, and is making its mark in a fiercely competitive industry.

The Atlantic Research Corporation is a diversified high technology concern in Alexandria, Virginia, which in 1974 was a subsidiary of a large conglomerate type business. In that year, ten employees sought to purchase the division from its cash-starved parent, but were unable to reach an agreement until in 1976 a $1 million SBIC investment was added to $5 million in debt financing already offered. The newly independent firm grew from 500 employees and $23 million in sales in 1974 to more than 2,400 employees and $176 million in sales in 1984. Since the SBIC financing, Atlantic Research as paid almost $17 million in taxes.

Motion Designs, Inc., of Fresno, California, manufactures ultralightweight wheelchairs for normal and specialized uses. The company was started in 1980 by three young entrepreneurs after one suffered partial paralysis as a result of a hang-gliding accident. Working in a garage, the three developed an ultralightweight wheelchair unlike any in the market. Today, Motion Designs employs 75 people in a modern 50,000 square foot factory, due, in part, to a $300,000 SBA guaranteed loan. With $5 million in sales last year, Motion Designs is growing rapidly, competes successfully against entrenched larger firms and exports to Canada and Northern Europe.

Hye-Quality Bakery in Fresno, California, bakes the traditional Armenian cracker bread. Everything was done by hand in this family-owned operation until an SBA-guaranteed loan allowed Hye-Quality to expand from 1,800 to 10,000 square feet and to fully automate the specialized baking process. Hye-Quality now employs 15 people, sells nationwide, and has reinvested $75,000 of profits to further modernize their equipment. A former "Mom-and-Pop" business is moving aggressively into the national marketplace.

Central Valley Trailer Repair in Fresno, California, provides repair services for commercial trucks and trailers, refrigerated vans and flatbed trailers. Unable to obtain start-up financing on its own, SBA approved a guaranteed loan and Central Valley exceeded its own projection in the first year. The firm now employs 15 people—all of whom were unemployed prior to working for Central Valley.

SensorMedics Corporation in Anaheim, California, specializes in the design, development, manufacturing and marketing of microelectronics based instrument systems for the non-invasive measurement and monitoring of heart, lung and other body functions. The firm designed and developed instrumentation used in every U.S. manned spaceflight. Key to SensorMedics success was investment by a SBA-licensed small business investment company (SBIC). This investment enabled SensorMedics to prosper and grow to its current size of 250 employees, expected sales of $23 million in 1985, including $2.5 million in exports to Japan and Europe. In addition, the tax paying public will get a return of over $1 million in the form of payroll and corporate income taxes in 1985.

Moore's Quality Galvanizing, Inc. in Madera, California, is a manufacturing company started in 1984 which galvanizes—puts a thin coat of zinc or other metal—onto steel products such as tanks, ladders, hand railings, etc. The SBA's 503 program made possible the construction of a specialized plant needed for this process. Today, Moore's provides jobs for 25 people—24 of whom were hired through the local California unemployment office.

San Joaquin Helicopters, Inc., of Delano, California, provides full service crop dusting and spraying services in the rich San Joaquin Valley of California. Founded by a Vietnam veteran, the firm pioneered new and more efficient application techniques using equipment it designed. In order to keep up with customers' demand, San Joaquin Helicopters needed financing to buy new equipment in 1978. An SBA guarantee made it possible for a bank to lend to them, and today San Joaquin employs 65 full-time and 35 part-time employees.

Delta Engineering & Manufacturing of Tualatin, Oregon, designs and manufactures sheet metal enclosures, chassis and components for the electricals, electronic and medical industries. Delta customers include Hewlett-Packard, Intel, Boeing and many others. The SBA's 503 program enabled Delta to build a small, highly sophisticated, but flexible manufacturing plant with computerized job tracking production control and state-of-the-art equipment, requiring highly skilled technicians. Fifty-one skilled jobs were created.

Burke's Paint Company, located in Washougal, Washington, manufactures, distributes, and markets paints and other specialized coatings. An SBA guaranteed loan allowed Burke's Paint to re-

50-422 O 85 - 2

cover from a disastrous fire, and additional assistance in 1983 enabled the company to open two new locations. Burke's now employs 30 people and recently developed and patented a coating which can be used instead of stainless steel. The "stainless steel" paint has generated considerable interest and has significant sales potential. Help from the SBA at a crucial time made the difference for this innovative small business.

Nature's Food and Tool, Inc., specializes in fresh foods and foods without chemical additives. They have developed a growing market among young and health conscious consumers in Portland, Oregon. SBA's 503 loan program made it possible for Nature's Food to expand substantially, adding 27 new jobs. Nature's Food plans to continue its expansion in an industry dominated by giant food retail chains.

PED Manufacturing, Ltd., of Oregon City, Oregon, manufactures specialized steel castings in small numbers and on short notice for its customers. PED Manufacturing began in a back yard in 1969. Unable to obtain bank financing for expansion in 1972, the young firm went to the SBA for a $55,000 guaranteed loan, and in 1978, PED increased their guaranteed loan to $500,000 to expand further. As a result of this SBA assistance, annual sales have increased from $158,000 in 1972 to more than $4 million in 1984. The company employs 60 people with a gross payroll of $1.5 million per year, and it has invested an additional $1.4 million in new capital equipment and plant.

Coast Janitorial Services, Inc., in Portland, Oregon, began in 1957. After a number of unsuccessful attempts to obtain bank financing for expansion in 1971, the company turned to SBA and obtained a guaranteed bank loan. Coast Janitorial has also made use of the SBA's surety bond program. Today, Coast Janitorial employs 150 people (125 more than in 1971) and provides services in four states—Oregon, Idaho, California and Washington State.

Communications Test Design, Inc., (CTDI) of Exton, Pennsylvania, is an electronics engineering firm that designs, manufactures and markets electronic testing equipment and repairs and refurbishes telecommunications equipment for various Bell Telephone Companies. This family-owned business began in 1975 with 600 square feet in the family home. CDTI grew rapidly and by 1984, the firm had nine branch offices and was in need of new headquarters facilities. SBA's 503 program enabled expansion into a 30,000 square foot building. The new facility houses CTDI's corporate and administrative offices, R&D departments and manufacturig and remanufacturing departments. Since the 503 financing, employment has increased by 186 jobs to 320, payroll taxes are up 142% and CTDI paid $456,000 in Federal and State corporate income taxes; the firm's annual taxes exceed the total SBA-backed loan. CTDI is now prepared for even more growth in an expanding industry.

Good Lad Company in Philadelphia manufactures children's clothing. The SBA's 503 program provided the long-term financing necessary for Good Lad's expansion. The now own and occupy 200,000 square feet for manufacturing and office space. The expansion enabled Good Lad to add 150 employees and to compete aggressively in an extremely competitive international market. The

long-term 503 financing is an essential part of Good Lad's competitive strength.

ADCO Products Corporation of Bristol, Pennsylvania, manufactures and markets patended, insulated doors for commercial use in factories, warehouses, etc. An SBA guaranteed loan helped ADCO to create 15 jobs in the Philadelphia area and to preserve 45 additional jobs in Detroit when it purchased a firm going out of business in this high unemployment area. Long-term credit through the SBA guarantee has provided the stable financial backing necessary for continued growth.

Salladalley is a small chain of soup and salad restaurants in the Philadelphia area. In 1978, the owners raised $40,000 from their families to start their first restaurant, but could not obtain a bank loan—they were 22 years old at the time. An SBA guaranted loan of $40,000 provided them with the necessary capital to open their first location. Today, they have six Salladalley restaurants and provide over 250 full and part-time jobs. In 1984, Salladalley was named the fastest growing private company in America by Inc. Magazine.

Medley Tool & Model Company, Inc., is a minority owned manufacturing company in Philadelphia. Started in 1968, Medley Tool has utilized the SBA's loan and consultation services and participated in the 8(a) Capital Ownership Development Program. Today, Medley employs 177 people and provides an efficient contract manufacturing service to both the U.S. government and private sector businesses. Nearly all of their employees belong to minority groups and were formerly unemployed.

American Cable Company, Inc., in Philadelphia manufactures battery cables, battery terminals and booster cables for the commercial market as well as wiring harnesses, cable assemblies and various electrical and electronics leads for the military. Started in a basement by a Cuban immigrant with $1,500, the company was able to benefit from SBA consulting, the SBA 502 loan program, and the 8(a) Capital Ownership Development Program. The SBA enabled American Cable to grow from a "Mom and Pop" shop to one with 40 employees and 30,000 square feet and to become a manufacturer of products for John Deere Company, Ford Motor Company, and the U.S. government.

Falcon Associates, Inc., in Philadelphia is an asbestos removal contractor and a commercial and industrial insulation contractor. The SBA's surety bond program has enabled Falcon Associates to grow from a company with 2 employees in 1978 to one with 22 full-time and 26 part-time employees and sales of $2.7 million in 1984. The firm anticipates sales of $4 million in 1985.

Citi-Chemical, Inc. of Cherry Hills, New Jersey, is a minority owned business which manufactures and markets specialty polymers and inorganic compounds for water and wastewater treatment plants and industrial manufacturers. Begun in 1984 by two entrepreneurs, the Pennsylvania Small Business Development Center has played a key consultation role to the young company, providing advice on business plan development, financing, marketing and cash flow analysis.

The JPM Company of Lewisburg, Pennsylvania, manufactures wire and cable assemblies and electro-mechanical sub-assemblies

for the computer and general electonics industry. The Small Business Development Center in Pennsylvania was able to provide the following services: 1) a Bucknell University graduate student designed inexpensive, moveable sound baffles which greatly reduced factory noise at a significant savings; 2) the Bucknell engineering department designed an electrical testing device at a 70% savings; and 3) Buckneli helped design and produce a waste chemical recovery system that reduced chemical use by 90% and eliminated toxic wastes. The SBDC was essential to the economic health of the JPM Company while providing valuable learning experiences to Bucknell student.

The overall contribution of these small concerns in innovations, jobs created, taxes paid, and money saved state and Federal governments is incalculable.

With the Subcommittee's series of hearings across the United States completed by April 22, 1985 the forum shifted to Washington to hear from past and present government officials and national associations.

Although initially the President had proposed the elimination of the Small Business Administration, at a subcommittee hearing on April 24, 1985, Administrator Sanders confirmed press reports that the President had agreed with a trade association to reverse his position and retain SBA as an independent agency; however the revived agency would have only those functions previously proposed for transfer to Commerce, e.g., programs such as procurement assistance, innovation and research, minority small business assistance, advocacy and SCORE, the Service Corps of Retired Executives. SBA would still be gutted of all other functions, i.e., all financial assistance programs and also management assistance would be thrown out. The Chairman expresed no agreement with this unilateral compromise and provided Members with facts about the SBA financial assistance programs which were proposed to be eliminated.

DEBUNKING SOME MYTHS SBA

The *Wall Street Journal,* the Heritage Foundation, and other critics of SBA often cite a GAO report which mentions that the SBA in any given year loans money to less then 1 percent of the eleven to fourteen million small business concerns (SBCs) in the U.S. However, they conveniently ignore other facts mentioned in that same GAO study (United States General Accounting Office, *SBA's Loan Guarantee Program: An Assessment of Its Role in the Financial Market,* April 25, 1983, GAO/RCED–83–96) and elsewhere about the importance of SBA. Some of the more significant items are referenced for review:

1. Dun and Bradstreet 1979 records indicate while there are approximately eleven million small business concerns in the U.S., only 4.5 million of these SBCs *ever* applied for credit in their lifetimes. In other words, the 1 percent figure so often quoted does not relate SBA activity to the actual number of businesses who are borrowing in any given year. Thus, SBA probably provides credit to about 10 percent of the small business community which may be seeking funds each year.

2. Banks contacted by the GAO in the same survey reported that 13 percent of all outstanding bank loans made to the SBCs were guaranteed by the SBA nationwide.

3. Since most of all bank financing to SBCs is primarily short-term loans, the GAO also found that SBA guarantees may be involved in approximately 30 percent to 40 percent of all *long-term loans* made to SBCs in recent years nationwide.

4. SBA was recognize as one of the primary vehicles for long-term credit to small businesses. Everyone agrees that SBCs employ more people than big business, and an MIT study shows they create 80 percent of all new jobs.

5. The same GAO suvery also found that:

	Regular SBC bank loans	SBA GTD [1] SBC bank loans
Maturity	52 percent for less than 1 years	74 percent for 6 years or more.
Average maturity	Less than 3 years	6.3 years.
Average loan	$58,000	$118,000

[1] Guaranteed.

As can be seen above, banks with SBA guarantees are able to lend more money, for longer terms, to many more businesses (30 percent to 40 percent nationwide) than they could without SBA support. The GAO found that 82 percent of all loans made under the SBA guarantee program would not have been made for the same terms and conditions or even at all without SBA support.

6. Another complaint often voiced is that SBA loans are made to businesses that are not credit worthy. The facts, however, indicate otherwise.

Since its inception in 1953, SBA has guaranteed and/or disbursed approximately $36 billion in total business loans to 500,000 small businesses. However, the cumulative loss actually charged off to date (1984 fiscal year end) was 11.05 percent for direct loans and 5.72 percent for guaranteed loans.

7. Critics have asserted that SBA *primarily* makes repetitive loans to a small elite group of businesses that are in the "lower end" of "weak growth" sectors of our economy, such as restaurants and bars. This is simply not true. In 1982, although restaurants and bars were the largest category of SBA borrowers, they only received 7 percent of the loans. Conversely, this means that 93 percent went to other types of small businesses. SBA's portfolio contains numerous examples of success stories. Three current "trendy" or "headline companies" which grew with SBA assistance are: Nike Shoes, Federal Express and Apple Computers. While not all of SBA borrowers are as nationally known or necessarily high tech, a substantial percentage of SBA's portfolio is made up of manufacturers and wholesalers. Also, over the past five years, only 15 percent of SBA borrowers are "repeat businesses".

8. Is the SBA expensive to operate? While it is ture that SBA's administrative costs for all of its programs are in excess of $250 million, SBA's *administrative lending* costs (for Finance and Investment) total only $55–60 million annually. Further, last year SBA loans generated approximately $30 million in guarantee fees alone. In summary the lending activities of the SBA are very *economical*

when measured against their impact on SBAs nationwide and on the economy.

Although there never has been a study performed to measure SBA's total impact on the economy, or its effect in creating jobs through its lending activities, a review was performed on *one* of SBA's loans programs, the Certified Development Company Loan Program. This study found that of 2,300 projects financed over four years a minimum of 58,600 new jobs had been created or preserved. These projects involved $438.3 million in SBA loans over a four-year period. It should be noted that SBA's total guarantee of loans is about $3 billion annually in recent years. Obviously, a study of the number of jobs preserved and/or created by these loans annually would be significant.

9. SBA's impact on the credit markets and interest rates is negligible. Critics often assert that SBA loans require significant budgetary outlays and as a result impact severely on the $100 billion plus Federal deficit. This is simply not true. Fully 90 percent of all SBA regular program lending is really a guarantee or a contingent liability of the government (i.e., a pledge to purchase a loan from a bank should a business fail). While it is true that in 1983 and in 1984 the U.S. Treasury was requested to purchase a significant amount of loans from banks that exercised the guarantee, it must be recognized that this was after a period of liberal credit criteria initiated by various administrations during the '70s, and after the effects of a strong recession.

10. Would we save money by abolishing the SBA? OMB says that the government would make, in a series of one-time transactions over four years, $1.83 billion by selling SBA's portfolio. But if the loans are kept and interest collected, SBA estimates that the government would collect $8.8 billion from the portfolio over the next nine years.

11. While it is true that many headline stories have given wide exposure to selective failures and problem loans, the statistics above indicate a more balanced picture. The Agency accomplishes its mission with approximately 4,900 employees nationwide. Further, the Agency in 1981 under the direction of the President, and with the oversight of congressional committees, made substantial cuts in personnel and spending, improved lending criteria and eliminated or revised various SBA programs which achieved a 27 percent overall reduction in the budget. Documentation and delivery systems have been streamlined resulting in materially improved turnaround times and more timely service to the public.

Notwithstanding the White House position reversal and agreement to retain SBA, further communications from the President appeared to retract this concession.

As the Chairman summarized the situation:

> To borrow a line from President Reagan, "there you go again!"

First came the reports of last December that all of the Small Business Administration (SBA) programs needed to be abolished in the name of budget savings.

Second came the Administration's budget request saying that SBA had to go but that a few non-financial functions could be transferred to the Department of Commerce.

Third came the director of OMB testifying before the Senate that he favored abolishing the SBA as a matter of policy even if there were no budget deficit.

Fourth came the reported agreement between the Office of Management and Budget (OMB) and the National Federation of Independent Businesses (NFIB) under which the financial programs had to go but the non-financial ones would remain at SBA which would remain an independent agency.

Fifth, only last week, came the agreement between OMB-Senators Dole & Weicker under which SBA would be trimmed down but would stay in business with its financial programs. This agreement was incorporated in the Senate passed Budget Resolution.

Now comes a letter dated May 13th from President Reagan transmitting his 1985 report on *The State of Small Business* which indicates the White House has gone full circle and again wants the SBA abolished, particularly its lending programs, and a new organization established in the Department of Commerce to represent small business. Surely the President does not mean to repudiate his administration's agreement of last week to maintain an independent SBA.

My colleagues, make no mistake about it, any administration which really cares for small business does not act in this fashion.

Responsible public officials, including some 20 Governors, both Republican and Demoncratic, and all 9 of the living former administrators of SBA (4 Republican and 3 Democratic) know that a viable, independent SBA is needed."

THE NATIONAL HEARINGS ON SBA WASHINGTON, D.C., APRIL 24 AND 30 AND MAY 7, 1985

The three days of Washington hearings conducted by the Subcommittee on SBA and SBIC Authority, Minority Enterprise and General Small Business Problems confirmed the results of the seven field hearings. Summaries of parts of the large volume of testimony in support of H.R. 1281 and continued independence for SBA are set out in this section.

The national associations which had been united and immediate in their rejection of the President's initial proposals in regard to SBA remained unanimous in their opposition not only to the first "termination plan", but to all subsequent "proposals" by the administration for SBA's future role.

The associations' continued support for the Committee's position was gratifying. But these hearings also featured unprecedented testimony. The agency received the unqualified support of *all* of the living Presidential appointees of either party who formerly had been responsible for SBA operations.

Nine outstanding Americans who served as Administrator of the U.S. Small Business Administration under seven U.S. Presidents all made their case for a strong and independent SBA at the Subcommittee's April 24, 1985 hearing in Washington, D.C. Their statement was presented by Milton D. Stewart, former Chief Coun-

sel for Advocacy of SBA, and now a practicing business lawyer with Rose, Schmidt, Chapman, Duff and Hasely of Washington and Pittsburgh, and Ribbins and Green of Phoenix, Arizona, who also serves as President of the Small Business High Technology Institute in Phoenix, Arizona and Washington, D.C. Mr. Stewart is a former editor of *Inc.* Magazine, and a past President of the National Association for Small Business and the National Association of Small Business Investment Companies.

Mr. Stewart's Background to the Administrators' Statement and the statement speak for themselves.

BACKGROUND TO STATEMENT OF FORMER SBA ADMINISTRATORS

There has been an independent small business agency in the Excutive branch of the Federal government ever since 1942—except for the years 1947-1951.

During World War II the agency was called the Smaller War Plants Corporation and had three general missions: helping small firms get a fair share of defense contracts; a fair share of scarce materials for production, and financing for their war work. A small management assistance program was also developed.

At the end of World War II, the agency was abolished, and it functions either ended or were transferred to the Department of Commerce, and the RFC. . .

During the next four years, sentiment rose in both Congress and in the small business community for the re-establishment of an independent small business agency. In 1951 Congress mandated and President Truman set up the Small Defense Plants Administration. It performed, during the Korean War, the same general functions SWPC had performed during World War II.

In 1953, the Korean War having ended, President Eisenhower with bipartisan Congressional support established the Small Business Administration. Because this was the first such agency in peacetime, it was first authorized for only two years. After that experimental period, the agency was made permanent.

At first the agency's three main missions were primarily those its wartime predecessors had: a fair share of Federal procurement, some forms of financial assistance and management assistance. Over the years, the nature of these programs was changed from time to time, and several major new ones added—the SBIC program, the 503 local development company loan program, special assistance for minority and women entrepreneurs. All of these have had their critics and their supporters in and out of government.

Formal recognition of SBA's role as "advocate for small business" within the Executive branch came with the establishment of the post of a Presidentially named Chief Counsel for Advocacy.

During the period of SBA's existence, the Federal government itself has grown astronomically.

Since the beginning of the 1985 budget debate, the issue of SBA's value has narrowed to its loan and loan guaranty programs. A muddle of arguments flying in all directions has confused direct loans and guaranteed loans. A "redefinition" has turned both spending and certain guarantees of credit into "expenditures"—the amount to be "saved" is thus built up to make it look significant

for deficit reduction purposes. Firm evidence that some programs—like the SBIC program—produce net gains to the Treasury and new jobs are simply forgotten or ignored.

Also forgotten is the "scissors" impact of Federal policy on small business in the money market. Growth in Federal expenditures leads to the growth of both the government and government-sized business. Those are the cumulative results of Federal tax, credit, captital, procurement and regulatory policies. Small business is then "scissored" in the money market—by "crowding out" pressures from both government and government-sized business. SBA's program are far too small to offset these Federally-created forces completely—but they do help do a little everywhere, and a great deal in some places.

Their continuation now—properly reduced to reflect the needed government-wide cutbacks—is not more than a minimal but welcome effort by the Federal government at self-control. Small as it is in our vast economy, the effect of SBA's programs is all in the direction of improving opportunity and entrepreneurship. In peace, in hot war, in cold war—that is the least the American people can expect of their Federal government.

THE ADMINISTRATIONS

President	Adminstrator [1]	Dates in office
Truman—April 1945 to January 1953.	Telford Taylor (New York)	Sept. 28, 1951 to Sept. 12, 1952.
Eisenhower—January 1953 to January 1961.	Wendell B. Barnes (Oklahoma; California)	Feb. 29, 1954 to Sept. 1, 1959.
Do	Philip McCallum (New York; Virginia)	Sept. 23, 1959 to Jan. 20, 1961.
Kennedy-Johnson—January 1961 to November 1963; November 1963 to January 1969.	Eugene Foley (Minnesota; Pennsylvania)	Aug. 8, 1963 to Sept. 9, 1965.
Johnson—November 1963 to January 1969.	Bernard L. Boutin (New Hampshire)	May 19, 1966 to July 31, 1967.
Do	Robert C. Moot (Virginia)	Aug. 1, 1967 to July 31, 1968.
Nixon—January 1969 to August 1974.	Thomas S. Kleppe (North Dakota; Maryland)	January 18, 1971 to Sept. 9, 1975.
Ford—August 1974 to January 1977.	Mitchell P. Kobelinski (Illinois)	Feb. 12, 1976 to Mar. 4, 1977.
Carter—January 1977 to January 1981.	A. Vernon Weaver (Arkansas; D.C.)	April 1977 to January 1981.

[1] The combined service of these men in this post (Mr. Taylor was called Small Defense Plants Administrator) exceeds 21 years, or more than two-thirds of the agency's life under these seven Presidents. Former Administrators Mitchell, Sandoval, Samuels, and Horne are deceased. It was deemed inappropriate to include President Reagan's appointees while he is in office. There were, in addition, periods during which the agency was headed by an Acting Administrator not confirmed by the Senate.

Their Joint Statement on SBA

We make this joint public statement to underscore our concern about, and our disagreement with, recent proposals that the Small Business Administration be abolished as a contribution to the reduction of the Federal deficit.

It is not just small business—it is the Nation as a whole that will continue in the years ahead to need an independent small business agency in the executive branch of its Federal government. We will need it, above all, to cushion the private sector from some of the

unintended effects of Federal policies. This is particularly the case with respect to the supply of capital and credit.

We base that judgment on our experience in the management of the SBA and its predecessor agency (the Small Defense Plants Administration) by appointment of seven Presidents of the United States. We base it also on our experience in the private sector in which we have spent the bulk of our lives as business people and independent professionals.

We here mean to pass no judgment on any particular SBA program or on any particular budget level. SBA should certainly bear its proper share of any government-wide expenditure reduction. A shift of functions and costs to the private sector has been under way for some time; obviously it should be continued as appropriate. Needed changes are one thing; junking or crippling a useful government agency is quite another.

It is perhaps fortunate that the Congress enacted, and the President approved a law last August mandating a second White House Conference on Small Business to be held no later than the fall of 1986. A group of broadly representative, responsible small business opinion leaders should be heard on this issue. The White House Conference offers an excellent prospect for that.

The bipartisan bill sponsored by the Senate Small Business Committee is a sensible approach as an interim measure; there are surely others.

Each of us would probably put his reasons for our common conviction about SBA somewhat differently.

What we all agree on most strongly is that small business must have an independent and vigorous Federal agency, one which is not part of any other agency, one which has direct access to the President and the Congress.

Wendell B. Barnes, Bernard L. Boutin, Eugene Foley, Thomas S. Kleppe, Mitchell F. Kobelinski, Philip McCallum, Robert C. Moot, Telford Taylor, A Vernon Weaver.

The Honorable Abraham C. Gerges, a member of the New York City Council, who recently acted as Chairman for hearings by the Council's Committee on Economic Development to examine the impact the SBA has had upon the City and State of New York, testified that those hearings concluded that elimination of the SBA's worthwhile financial assistance, instructional and outreach programs would be counterproductive. Those hearings produced evidence that the stimulus which SBA aid gives to the economy as a whole generates more revenue than it expends in tax dollars. Moreover, SBA fosters the dream of individual enterpreneurship; this dream put our country's economy among the world's leaders. Based on those hearings, he emphatically endorsed adoption of H.R. 1281.

Mr. Gerges in his testimony before the Committee, outlined the findings in the Council's March 29, 1985 Report entitled "Operations of the U.S. Small Business Administration in the New York Area".

As a member of the New York City Council, I recently acted as Chairman for hearings by the Council's Commit-

tee on Economic Development to examine the impact the SBA has had upon the small business community in our nation, as well as the City and State of New York. Our hearings concluded that elimination of the SBA's worthwhile financial assistance, instructional and outreach programs would be counterproductive since the stimulus which this aid gives to the economy as a whole appears to generate more revenue than it expands in tax dollars. Furthermore, economics aside, it fosters the dream of individual enterpreneurship among our citizens and it is this dream which has helped put our country's economy among the world's leaders. Because of what I learned in these hearings, I emphatically endorse adoption of H.R. 1281 which would preserve to the fullest extent possible, many of the worthwhile features of the SBA.

The SBA's loan programs, management assistance information, economic research and analysis, specialized offices, outreach programs and workshops all provide invaluable help to existing and potential small businessmen in our country. In addition, the SBA, through its Home Disaster Loan Program, provides needed assistance to victims of national disasters. In fiscal years 1983 and 1984, for example, this Program aided 368 victims in the New York City area alone with a total loan value of $2.4 million.

SBA loans and guarantees, only made when not privately obtainable, provide the impetus for the creation of new and often innovative businesses which would not otherwise start or survive. In light of the growing concern over competition from foreign businesses, it seems every efficient avenue for expanding our economy should remain open.

Our Committee's investigation revealed the scope of the SBA's efforts at aiding the New York region's small business community. Including special loans to women, veterans and minorities, the SBA has, over the past three and a half years, made or guaranteed 1,500 loans for a dollar volume of $178 million, with New York City businesses receiving 854 loans at $89 million. In a borough by borough breakdown, Manhattan had 315 loans for $30.8 million; Brooklyn had 257 loans for $27 million; Queens with 137 loans for $16.7 million; the Bronx had 94 loans for $10.4 million; and Staten Island had 51 loans for a total of $4.2 million.

Due to specialized outreach programs, the SBA has provided great help to various segments of the small business community. Nationwide, businesses owned and controlled by women received loan guarantees totalling $143 million in FY 1983 alone. Veterans received $205 million in surety bond guarantees that same year. This program of guarantees has helped small contractors receive $12.9 billion in contracts since the program inception in 1971 and helps reduce bids on government contracts through increased competition. FY 1983 also saw the granting of 168 handicapped assistance loans for $16.5 million. As an example of other than financial assistance, the New York region's

Office of the Service Corps of Retired Executives provides counseling and management assistance to approximately 200 visitors a week.

It is impossible to calculate either the enormous benefits conferred upon small businesses by these loans and similar ones made nationwide, or the resultant stimulus to our county's economy. It is well known however, that small businesses such as minority contractors, who I might add, receive help in obtaining necessary surety bonds through SBA guarantees, often provide a major source of employment and related job training to the semi-skilled and unskilled workers of our economy, who make up too distressingly large a share of our unemployed. Since most financial assistance programs of the SBA are not simply handouts, but require full repayment, there is little if any cost to the government particularly when new taxes paid by new businesses and their employees are factored in.

Therefore, I strongly urge adoption of H.R. 1281 which would maintain the SBA's present funding and level of operations. Since the small business community generates an estimated 38% of our gross national product, it is hard to imagine that expenditures aimed at insuring the vitality of this sector could be more wisely used.

Walter E. Galanty, Jr., Chairman of the Small Business Legislative Council (SBLC), representing over 4 million small business owners, manufacturers, retailers, service firms and agriculture, in 89 associations testified on the recently-held Issues Conference to develop the SBLC 1985 agenda. That conference adopted a strong policy position in support of SBA.

He testified that the current proposal to reduce the responsibilities of the Small Business Administration is absolutely inconsistent with the fundamental economic goals of the Reagan Administration; SBA programs have played a pivotal role in leveraging new job opportunities which have generated billions of dollars in revenue for the Treasury.

Mr. Galanty emphasized that Director Stockman, in his testimony before the Senate Committee on Small Business, stated the issue was not the federal deficit, but admitted that even if there were a surplus, he would be advocating elimination of the agency's programs. Mr. Galanty while pleased by the Administration's recent decision to retain an independent agency, objected because this proposal still included termination of all financial/credit programs and the sale of the SBA loan portfolio was likely to yield, over a period of time, pennies on the dollar. He stated:

> While defaults of SBA loans have always been a controversial issue, the agency's track record in collecting has improved dramatically and allowing the process to run its course will certainly yield more revenue, even when discounted to current values, than OMB's projected return. We find it very difficult to understand why OMB would make such an effort to obtain a modest amount of revenue. We *cannot* support the wholesale dismantling of the Small Business Administration. In the case of the SBA,

the whole is greater than the sum of the parts. A review of all the SBA programs is justified and we would gladly cooperate in any effort to do so. We do not believe, however, that the urgent need to control the deficit lends itself to that process.

Small Business Legislative Council Policy Position Paper on the Small Business Administration

The Small Business Administration (SBA) was formed under a broad general mandate to protect and promote the interests of small business in the American economy. For more than 30 years, SBA has stood as the sole government advocate for the small business community.

RESOLUTION

SBLC strongly opposes the Administration's proposal to eliminate the Small Business Administration. SBLC believes it would be a tragic mistake to kill the single agency which represents the interests of small business in the Federal government. Because small business creates the vast majority of new jobs and product innovations in the U.S. economy, pays substantial taxes to the Treasury and produces almost one-half of the nation's gross national product, it is absolutely essential that the SBA continue to represent the small business community in the executive branch of govenment.

SBLC supports the basic mission and the continuation of the Small Business Administration. The SBA *must* maintain its status as an autonomous agency whose sole mission should be to advocate for and assist the small business community, with the private sector having a stronger partnership role.

To ensure that SBA's mission remains focused on areas of greatest need:

1. The independent role of the Office of Advocacy must be maintained and strengthened.

2. Congress should mandate a comprehensive review of all SBA programs to assess their efficiency and their appropriateness to the broad needs of the small business community. That review should be conducted under the direction of the private sector, with the leadership of the small business constituency.

3. In the delivery of lending and management assistance services, SBA should be directed to increase its reliance on the local resources in the private business sector which have expertise in its program areas. SBA lending programs remain a vital resource for small business, and they must be maintained.

4. To increase small business' role in policy-making, the SBA Administrator should be a member of all Cabinet Councils affecting commerce, trade and the economy.

5. The SBA, whether through program divisions, local resources or the Office of Advocacy must expand its efforts to disseminate vital information (particularly on government regulatory efforts) to small business and provide not only management, but also techni-

cal assistance necessary for understanding and complying with such requirements.

Herbert Liebenson, President of the National Small Business Association (NSB) a multi-industry trade association, representing approximately 50,000 small business firms nationwide, and Executive Director of the Small Business Legislative Council, testified as to his concern with what might happen to the economic future of our country and the future of small business if there were no Small Business Administration.

He explained that over the past 10–15 years, there has been a growing concentration of industrial capacity in fewer corporate hands. In 1984 mergers reached a total of 2,543—the highest annual count since 1974. Unless we have a small business data base that can give us information on business in the economy, measurements of competition and information in order to become involved with decision-making with other government agencies, small business will continue to fade in having influence on national policy—this can only be obtained through the SBA.

He stated:

> We have just gone through a rather severe recession, resulting in the largest number of bankruptcies since the Great Depression. Unless capital becomes available to the small business community which, in great part, makes up our middle class, our economy and society, as we know it today, is threatened. NSB's experience of twenty-five years is that the single most important factor for the future of small business in America is the availability of capital.
>
> The Small Business Administration is the only government agency that can monitor and determine how concentration in certain industries affects the small business community. SBA is able to make specific recommendations on how to maintain a balanced economy and advise other agencies of government on small business issues.

He emphasized that studies on how and where small business obtain credit, the impact of proposed tax laws, procurement policy, and how proposed regulations affect firms, by size of firm, need to be done.

NSB's Policy Position Paper on the Small Business Administration

ISSUE NO. 36

The Small Business Administration was formed under a broad general mandate to protect and promote the interests of small business in the American economy. For more than 30 years, SBA has stood as the sole advocate for the small business community.

SBA's programs have become increasingly diverse, and conducted to serve constituencies beyond the small business community. Spokesmen within Congress and the Administration have raised the issue of the need either to reorganize or outright dismantle the agency.

PROPOSED ACTION

The Small Business Administration *must* maintain its status as an autonomous agency whose mission is to promote advocacy for and assistance to the small business community.

To ensure that SBA's mission remains focused on areas of greatest need:

1. The Congress should mandate a comprehensive review of all SBA programs to assess their efficiency and their appropriateness to the broad needs of the small business community. That review should be conducted under the direction of the private sector, with the leadership of the small business constituency.

2. In the delivery of services, SBA should be directed to increase its reliance on local resources in the private business sector which have expertise in its program areas.

3. To increase small business' role in policy-making, the SBA Administrator would be a member of all Cabinet Council's affecting commerce, trade and the economy.

Lewis A. Shattuck testified as Secretary-Treasurer of Small Business United and as Executive Vice President of the Smaller Business Association of New England (SBANE).

Small Business United consists of regional, state and local associations located throughout the United States. Members of the associations are entrepreneurs, small business owners/managers who believe in an organization that provides the executives of small businesses with an opportunity to participate in the legislative process.

Mr. Shattuck stated:

> I have had the opportunity to observe the operations of the SBA firsthand and have witnessed three previous attempts to abolish the Small Business Administration. I find it ironic that an agency so modest in size, with such an important mission, should be put on the defensive when it has responded through the years to the will of the Congress and the needs of its constituency.
>
> The Congress created the SBA in 1953 because it saw a need to promote and protect small business as insurance that there be a competitive free enterprise system. I see notning in 1985 to diminish this vital concern. A strong case can be made stating that the SBA is threatened today only because it has done its job too well!
>
> The fact that our economic system *is* competitive, that the number of new businesses *is* growing at a record rate and that there *is* more access to capital, all have been cited as reasons the agency is no longer necessary. I believe the reason we are in an entrepreneurial boom in this country, with enormous job generation, is due in no small measure to the success the agency has had in fostering the creation of small enterprises which have made our economic system the envy of the world.
>
> During 1984, nearly 700,000 small businesses were formed. This country is in an entrepreneurial explosion unmatched by any other country cn earth. In the last decade, while Western Europe lost 2 million jobs the U.S.

> created 20 million. The total number of jobs in this country has risen 50% since 1965, from 71 to 105 million today. Through the years, the SBA has meant the difference between success and failure for thousands and thousands of small businesses.

Jeffrey H. Joseph, Vice-President, Domestic Policy, Chamber of Commerce of the United States, made three points in his testimony: (1) the U.S. Chamber supports a strong, independent Small Business Administration agency representing small business interests in national policy formulation and providing and promoting services for small businesses; (2) the U.S. Chamber is prepared to accept cuts in SBA funding as part of a comprehensive federal budget package to slow the growth in federal spending and reduce the federal deficit without counterproductive tax increases; and (3) the SBA must be refocusd and restructured to provide more effective representation of and services to small business in financing, management assistance, procurement, advocacy, and leveraging of state government and private sector resources for small businesses.

John W. McClure, Executive Vice President of Mercantile Trust Company, N.A., St. Louis, and Chairman of the American Bankers Association's Small Business Credit Committee, presented ABA's views on the Small Business Administration. The combined assets of ABA members comprise approximately 95 percent of the industry total. The ABA executive expressed concern that mounting deficits and seemingly uncontrollable federal outlays have led to uncertainty about our economic future. This uncertainty takes a heavy toll on the performance of all sectors of the economy, but its impact falls especially hard on those sectors dependent on a stable flow of reasonably priced long-term credit.

He testified that the banking industry has been a major participant in ABA's loan guarantee program authorized by section (7)(a) of the Small Business Act. As of September 30, 1984, 9,923 commercial banks (almost 70 percent of the industry total) had at least one guaranteed loan outstanding. Of that total, 1,627 had 10 to 24 loans and 635 banks had 25 or more loans.

He stated:

> We believe the Administration's proposed elimination of the 7(a) Loan Guarantee Program would have an adverse effect on the ability of our members to provide financial assistance in their communities. In addition to increasing the liquidity and credit strength of our members, the 7(a) Loan Guarantee Program is helpful in promoting economic development, particularly for many smaller community banks. The majority of or members are smaller, independent, community-type organizations that have regulatory constraints on the amount of funds they can lend to any one customer. However, the guaranteed portion of a 7(a) loan is not included in the legal lending limit formula. To illustrate, a bank with a $500,000 legal lending limit cound extend up to $1,000,000 of credit to an eligible small business borrower by using the 7(a) Loan Guarantee Program. Furthermore, a bank originating SBA guaranteed loans may sell the guaranteed portion of such loans in an active

and recognized secondary market to preserve the funds for additional loans in the community. The small businesses that would be affected by the Administration's proposed elimination of the 7(a) Loan Guarantee Program could lose their only source of financing or find themselves unable to develop a viable long-term financing package.

Moreover, recent information indicates that the 7(a) Loan Guarantee Program has little or no impact on the credit market or the ability of other small businesses to get loans. For example, based upon data received from a representative nationwide sample of of over 500,000 NFIB member-firms in April 1984, commercial banks were the major source of the most recent loan for small businesses ranging in size from less than $50,000 to $3,000,000 or more in gross sales, and the major source of the most recent loan in every category relating to a firm's years in business.

Given the importance of the 7(a) Loan Guarantee Program in long-term financing, the ABA believes that the Administration's proposed elimination of the program would impose hardships on many small businesses and the communities in which they are located.

John P. Kelly, Jr., testified as Executive Vice President of the National Bankers Association (NBA). The National Bankers Association represents the interest of the Nations 104 minority banks, located in nearly 30 states and over 60 cities and includes banks owned by American Indians, Aleuts, Asians, Blacks, Hispanics, and Women.

The National Bankers Association testified in favor of H.R. 1281 and opposed any substantial restructuring or the outright elimination of the Small Business Administration. NBA stated its opposition in four points:

1. On balance the SBA has made a positive contribution to the Nation's economy and to the millions of Americans who share the dream and reality of the American free enterprise system. The SBA is the only source of equity and working capital that the government makes available to the small business and individual who pays taxes.

2. The Administration's proposal to abolish SBA would achieve a short term, nominal reduction in the Nation's deficit. However this action will not help to rectify the long term causes of this or future deficits. In fact elimination of the SBA will contribute to future deficits.

3. The elimination of the SBA's business loan and investment fund would discriminate against small businesses and individuals desiring to go into business.

4. As a natural consequence of the three reasons just cited, it would follow that the elimination or restructing of the SBA, without providing for the replacement of its Business Loan Investment Fund (BLIF) programs, would be contrary to the Federal Government's constitutional duty to promote all industry and commerce.

Brooks H. Browne, Vice President of Allied Lending Corporation in Washington, D.C., testified on behalf of the National Association

of Government Guaranteed Lenders. NSGGL is an organization of lenders, brokers, and investors that actively participate in the loan guarantee program of the SBA. NAGGL represents both large and small lenders who collectively are responsible for a large part of SBA guaranteed lending activity done nationally. The Association recognizes that there are major benefits to helping small business—one is employment and another is creation of additional tax revenues. It is estimated that each dollar of SBA financing generates $7 of revenue to local and federal government. And for every one billion of SBA guararnteed loans, approximately 100,000 jobs are created or retained.

In summary, he stated:

> I hope you will agree that the facts, as documented by GAO and others, do not support Administration contention that such a loan guarantee program is unnecessary. The figures I have shared with you show just the opposite—that this loan guarantee program is a vital source of long term capital for this country's small business community. It is a program which generates revenues in excess of its costs to the government and is an excellent partnership between the public and private sectors.
>
> On behalf of lenders active in the loan guaranteee program of the SBA throughout the country, the National Association of Government Guaranteed Lenders adamantly supports the retention of the SBA loan guarantee program as outlined in your proposed legislation, H.R. 1281, with no reduction in guarantee levels below the current 90%.

Two witnesses presented testimony on the impact of the administration's proposal on the minority small business community.

Jose Antonio Font, President of the Ibero-American Chamber of Commerce in Washington, D.C., supported the continuation of SBA as an independent agency both on a philosophical basis, and on the agency's benefits to the Hispanic community. The Committee heard of SBA's needed loan, venture capital, procurement and management assistance program's contribution to the Hispanic businesses.

Benjamin C. Maynigo, Executive Director of the Asian Pacific American Chamber of Commerce (APACC) testified that keeping SBA and its financing and management assistance programs is "fulfilling America's promises" to the Asian monority business community.

APACC's experience in international trade provided the Committee with some interesting data on what our competitors are doing on behalf of their small concerns:

> In 1984, the U.S. had trade deficit amounting to $123.3 billion. Of this deficit, $36.8 billion was with Japan; $20.4 billion was with Canada; $11.1 billion was with Taiwan; $8.7 billion was with West Germany; and $4 billion was with South Korea. This means that $81 billion or about ⅔ of the entire trade deficit has been caused by only five countries. After studying the economic policies of these five countries, we found that they have one thing in

common. That is, a tremendously high percantage of government financing for small businesses.

In Japan, in 1982, 43% of all government financing to further policy implementing objectives was used to finance small businesses. This amounted to $22.5 billion. In fact, to emphasize the importance of small businesses, a separate financial institution named Small Business Financing Corporation (SBFC) was even established by the government. Loans from this institution have been used to promote particular industries.

In Canada, they have three important programs that provide financial assistance to business firms. The industrial and regional development program (IRDP), the federal business development program (FBDP), and the small business loan program (SBLP). The projects involved in the IRDP are innovation, modernization/expansion, marketing assistance, establishment of new businesses, restructuring of existing businesses and industrial development. Most of the funds go to small and medium-sized companies. In 1983, IRDP had a budget of $350 million.

The federal business development program (FBDP), is a Crown Corporation that supplies both the capital and technical assistance to firms. From its inception in 1944 until 1961, loans were made only to small and medium-sized manufacturing businesses. Individual loans currently average about $200,000 but can go as much as $10 million. Total direct loans and guaranteed loans were almost $900 million in 1981.

The Small Business Loan Program (SBLP) guarantees loans up to $100,000 and provides management assistance. Eligible applicants must have annual sales less than $1.5 million.

In West Germany, about 70% of domestic loans disbursed through the KFW, the West German Government investment bank, go to small and medium-sized businesses. Furthermore, in 1982, 68.9 percent of the European recovery program loans went to small and medium-sized businesses.

The West German Government has also begun several programs to give financial support to small and innovative firms.

In Taiwan, more than 50% of its industrial output is produced by small and medium-sized businesses. The small and medium business credit-guarantee fund was founded in 1974 to provide credit guarantees to financial institutions that lend to such firms. As of July 1983, 30,000 firms had received guarantees. The Eximbank of China also offers preshipment and short-term export credits for purchases from small and medium-sized machinery producers in Taiwan.

In Korea, the government has several specialized financial institutions that support small businesses. One is the Small and Medium Industry Bank, which concentrates on smaller sized companies, the other is the Citizens National

> Bank which provides short-term credit to individuals and small companies. The Korea credit-guarantee fund (KCGF) was established to provide credit guarantees for certain businesses unable to obtain financing from the financial institutions. The fund also provides management and technical assistance. At least 40% of KCGF guarantees must go to small and medium-sized business.
>
> Mr. Chairman, and members of the committee, as you can see from the facts presented, our more successful trading partners have given priority to small businesses through government financial support. They recognize that the small businesses provide the jobs and the economic stability needed to stay competitive in international trade.
>
> There is no reason why we have to be different. There is no reason, why we have to weaken ourselves. There is no valid reason to abolish SBA.

Thomas Fairfield, the President of the Fairfield Company of Minneapolis, Minnesota, and the President of the American Surety Association testified in support of the Small Business Administration and the SBA's Surety Bond Guarantee (SBG) program.

He states:

> We believe that the administration is making a grave error in eliminating the SBA and more particularly in proposing the elimination of the SBG program. As taxpayers we are sensitive to the burgeoning cost of government and the potential for increased taxes. However, we feel just as strongly that the SBG program is absolutely necessary to the survival of thousands of small construction companies across the United States. Further, instead of being a burden to the taxpayer, the SBG program saves the government millions of dollars each year.
>
> The argument made for eliminating many of the SBA programs by the Office of Management and Budget is that the small businessman involved would be better served by the private sector. In the case of the SBG program, it is run by the private sector and supervised by the SBA. Both the private sector and the government share the risk in order to provide small and minority contractors with bonds which are not available to them in the standard surety market. Bonding, of course, is required by the Miller Act for all contractors working on government contracts. Thus, elimination of the only bonding source available to contractors without an impressive track record will have the immediate effect of eliminating thousands of contracting firms, and jobs, from the construction market.

His testimony set out data to prove conclusively that the SBG program makes a positive financial contribution to the government. These data are set out in full *infra*.

Surety Bond Guarantee Program—Statement of Income and Paid Claims to Date

PUBLIC SECTOR BENEFITS (ALL LEVELS OF GOVERNMENT)

A special analysis was made in 1977, of all bonded non-negotiated contracts guaranteed by SBA to ascertain and project the difference between the contract award prices and the bids of the second lowest bidders on public-financed contracts. The bid differential, called the "bid spread," would represent cost savings to the governmental units (contracting parties) generated by the operation of the SBG Program.

Another study, of 1000 contracts was completed in January 1985.

This special 1977 study showed that 38.7 percent (72% in 1985 study) of all SBG contracts were publicly financed contracts awarded through the bid process. For these, the average bid spread was 9.25 percent (meaning that the second lowest bidder's price averaged 9.25% higher than the winning low bid.) In the 1985 study, the spread had risen to 11.7% in the 8 years intervening.

This differential represents the minimum amount of additional expenditures that the various governments would have incurred had the SBG Program not been in operation. (Without the surety bond guarantees the small business contractors could not have complied with Government bonding requirements, and these public contracts would have been awarded at a higher cost to the lowest non-SBG bidder who could have obtained the required bonding.)

The bulk of contracts awarded are publicly financed. Bid spreads can only by computed on non-negotiated (open bid) public contracts. Obviously there were additional savings (cost-avoidance) among negotiated contracts, but we would have no way of estimating the amount of such savings, or cost avoidance.

With application of the above percentages and rationale to SBG statistics, it becomes clear that a net overall financial benefit to the public sector has been realized. Accordingly, when the financial operations of the SBG Program are viewed as part of the larger picture of total government financial operations it can be concluded that the program has been economically self-sustaining.

The above does not include any benefits arising from the extra employment generated by contracts under the SBG Program, nor the taxes paid by such contractors and their employees-most of which taxes would not have existed, except for the availability of the work made possible by the SBG Program.

Surety Bond Guarantee Program—statement of income and paid claims to date [1]

Income:	
Application fees	$2,100,670
Contractor fees	33,527,120
Surety premiums/fees	32,416,679
Total income	68,044,469
Expenses:	
Administrative (SBA overhead)	3,832,491

Interest to Treasury	5,791,248
Total expenses	9,623,739
Income before losses	58,420,730
Losses incurred from SBG claims:	
Claims incurred	300,317,011
Less: Recoveries, Refunds, etc	38,058,295
Net claims incurred	262,258,716
Net claims (loss/paid claims to date)	203,837,986

[1] Inception—January 1971 through March 31, 1985.

Surety bond guaranty activity	Current month	Cumulative
Applications for guarantee received	614	338,285
Applications approved	594	318,273
Actual contracts awarded (low bid, etc.)	568	167,963
Contract totals (actually obtained)	60,431,775	13,102,433,971
Average contract size	106,394	78,008
Minority contractors assisted (number of contracts)	127	26,918
Minority contract totals (actually obtained)	14,407,259	2,034,720,799
Defaults recorded	65	11,183

Net profit/savings to government (Federal, State, local) January 1971 thru Mar. 31, 1985:	
Public sector savings due to SBG Program awards (see Analysis)	$725,075,573
Net loss (paid claims and expenses to date less income)	−203,837,986
Net profit/savings to government to date	521,237,587

Analysis of public sector savings due to SBG Program awards

The estimate of public sector savings from program inception in 1971 through March 31, 1985 was calculated as follows:	
Total awards through the SBG Program inception thru March 31, 1985	$13,102,433,971
Less: Total awards, SBG Program, inception thru Feb. 28, 1985.	−13,041,249,558
Total awards, SBG Program, for month of March 1985	61,184,413
Percentage of awards from public sector	×.72
Amount of awards from public sector, month of March 1985	44,052,777
Awards from public sector thru February 1985	+6,319,424,158
Total awards from public sector thru March 1985	6,363,476,935
Amount of awards from public sector month of March 1985	44,052,777
Bid Spread Factor (bid spread—11.7 percent)	×1.117
Projected public sector awards for month of March 1985—if no SBG Program	49,206,951
Projected public sector awards, inception thru February 1985—if no SBG Program	+7,039,345,557
Projected public sector awards inception thru March 1985—if no SBG Program	7,088,552,508
Less: Total awards from public sector thru March 1985	−6,363,476,935
Public sector savings due to SBG Program awards	725,075,573

Dr. John F. Magnotti, Jr., Executive Vice President of the American Surety Association, supplemented the remarks of Mr. Fairfield.

He emphasized that the Surety Bond Guarantee Program is a procurement issue and has nothing to do with the loan guarantee programs, but that because the program name ends in "guarantee," it has been lumped together with the loan guarantee programs.

He stated:

> The fact is that many programs targeted for retention in the original budget proposed by the administration cannot be fulfilled without surety bonding. Primary examples are the current set-aside by the Department of Transportation for 10 percent of the dollars under the Surface Transportation Act for minority firms, as well as the regular set-aside programs in the construction area. We have maintained time and time again that the standard bonding market is reluctant to bond new small and minority construction firms to any effective degree. The only recourse for firms like these is the Small Business Administration's Surety Bond Guarantee Program. Without it, construction programs simply are not operable—given the requirement of the Miller Act for bonding on government construction contracts over $25,000. Mr. Stockman favors transfer of "procurement" programs and their "retention" in either the Small Business Administration or the Department of Commerce. It is obvious that he has not considered all of the aspects of the proposal since many of the procurement actions involve construction; and, again, construction is impossible without bonding. This approach is disingenuous at best and, at worst, will effectively eliminate participation by small and minority firms in the federal construction market.

The Honorable John V. Evans, Governor of the State of Idaho, presented testimony in support of retaining the Small Business Administration as an independent agency of the Federal Government. Governor Evans presented a detailed analysis of the part SBA plays in Idaho's economy and the American enterprise system:

> Idaho is a State of small businesses: 99.8 percent of our businesses employ under 500 employees; and 92 percent of our businesses are small, locally-owned firms with fewer than 20 employees. Eighty percent of the jobs in Idaho are in the small business sector. As you can well understand, the economic health of our State is directly related to the ability of these firms to grow and expand.
>
> The Small Business Administration in Idaho has been a great help in assisting these companies to grow. Last year, the agency supported the creation or continuation of 1,600 jobs.
>
> Our major national economic development challenge is to recreate an efficient, productive, and technologically-competitive American enterprise system within the world economy. To meet this challenge, massive new private sector investment into plants and equipment must be stimulated.

There are many who believe that the ability to meet this challenge rests within the giant, multi-national Fortune 500 firms. However, small and medium-sized businesses must play the leading role. Over 80 percent of all new jobs are created by firms employing less than 100 people. The cost of creating a job in a small business is 10 percent of the cost of creating a job in a Fortune 500 company.

The major problem for the small to medium-sized company wanting to expand is finding affordable long-term financing. There presently exists a "financing gap" for these small to medium-sized companies. Financing in the $50,000 to $1,000,000 range is difficult to obtain. The private institutions, because of their sources of money, tend not to loan money for terms over five to seven years. This short period results in a debt service that most smaller companies cannot maintain. Therefore, they forego expansion plans. It is in meeting this need for capital that the Small Business Administration has been such a great help in Idaho.

Our small businesses have relied particularly on the SBA 7A and SBA 503 programs to help them obtain working capital and long-term financing.

One banker recently stated in a public meeting that the SBA 7A program alone allowed his company to make $25 million more in operating loans in the time of high demand; the 90 percent guarantee feature in the 7A loans allows the lender to quickly sell these loans to the secondary markets and, thus, make more money available for lending in Idaho. Without the 7A and 503 programs from SBA, significant numbers of Idaho small businesses would not be able to expand or would have to delay expansion.

The current administration's plan to eliminate the Small Business Administration would have severe repercussions in Idaho. Idaho is a capital-poor State and we need financing programs that assist healthy small businesses to expand.

Since the inception of the Small Business Administration, Idaho has received $58.3 million through the SBA's direct loan program, $292 million in guarantee loans, $125.7 million in disaster loans, and $22.2 million in surety bonds, for a total of $498.2 million. These funds have been extremely beneficial to Idaho's small businesses.

The important issue I want to stress is that these funds are available from no other source. If the Small Business Administration is not in place, these investments will not occur and these businesses will have to delay or abandon their plans to expand and create more jobs for Idahoans. The tax income that is generated from an expanding business that is creating new jobs certainly pays back any costs incurred by the SBA in Idaho.

In conclusion, Idaho cannot afford the loss of approximately $30 million a year in finance programs, 1,600 jobs, and the essential technical assistance that the Small Business Administration provides. The businesses that borrow the funds pay taxes and help to increase the economic

health of Idaho. The economy of Idaho and the Nation needs these programs. I believe the taxpayers of the Nation and Idaho are being served very well by the Small Business Administration.

John Ciccarelli, the State Director of the Massachusetts Small Business Development Center and also Vice President of the Association of Small Business Development Centers (ASBDC) presented testimony on the widespread impact of the 37 Small Business Development Centers (SBDCs) located in 36 states which provide a counseling and training network for small business in conjunction with SBA field offices and management assistance programs. In fiscal year 1984, when ten new SBDCs came on stream, in excess of 50,000 small businesses received SBDC counseling and 102,000 received training. Since the program's inception in 1979, 154,000 small businesses have received SBDC counseling and 365,000 have received SBDC training.

Numerous studies have shown that small businesses are particularly vulnerable in the first five years of life and that failure comes most often from a lack of capital and an absence of sound management and planning practices. The SBDC program provides free management assistance and low-cost educational seminars for the small business owner in an effort to mitigate some of the circumstances that threaten small business' survival. Established by Congress under Public Law 96-302 and strengthened in 1984 by Public Law 98-395, the SBDC program is a partnership of federal, state and local government, the education community and the private sector. Private sector support is on the increase.

Mr. Ciccarelli testified:

> University-based SBDCs should play a major part in the new national program in recognition of their unique and vast resources—schools of law, business and engineering; libraries; access to sophisticated computer systems; and, state of the art research capabilities. He testified that with the support of the ASBDC, SBA has been exploring various means of greater utilization of the university system, the private sector, and other economic and business development offices to deliver SBDC assistance. For example, in Massachusetts, SBDC outreach centers have been established in 14 local chambers of commerce, 4 community development corporations and 1 bank. In Pennsylvania, SBDC outreach centers have been established in 20 local chambers of commerce, in Connecticut all SBDC counseling is delivered through 7 regional chambers of commerce; in Illinois, the SBDC program is coordinated through the State Department of Commerce and Community Affairs; and in Florida, SBDC counsel is provided through 33 local chambers of commerce.
>
> At the university level SBDCs are developing a strong emphasis on technology transfer. More schools of engineering and law, departments of computer science, and other specialized areas of expertise are being integrated into the SBDC system. As an example, the new small business development center in Kansas will provide high technology

assistance to small businesses through four engineering centers.

In addition, many small business development centers are moving ahead as full participants in SBA's new Small Business Innovation Research Program. The SBDC located at St. Louis University, through its consortium schools of the University of Missouri, is heavily involved in training and management assistance in this important program for small business innovation and research.

The small business development centers are also linked to community economic development. This activity can take many forms but most importantly it is the ability to bring sound business services to areas in greatest need. For example, in Massachusetts the Athol-Orange area of the Commonwealth, located about 30 miles north of Amherst is one of six areas which has not experienced the tremendous economic growth as other areas of the Commonwealth. A little over two years ago the unemployment rate was 18% more than double the state average and a very desperate situation existed. Today the unemployment rate has dropped to 8.5% and a new vitality has struck the area. The SBDC has a played a vital role in working with local officials to provide counseling and training to businesses in the area, helping to mobilize bank and private sector support and insuring that programs such as the SBA's lending program, IDB, and other federal and state programs were utilized to the fullest. Examples such as this are evident throughout the national SBDC program and illustrates the flexibility of the SBDC program. Whether its high tech or rural economic development the SBDC program can address the needs quickly and efficiently.

The impact of the SBDC program has been tremendous. In 1983, the University of Georgia conducted a study of the impact of SBDC counseling on client busineses of nine mature SBDCs. The findings of this research are truly amazing.

One year after counseling, SBDC clients performed better than the general business population in terms of sales, profits and employment. Sales increased 25 percent, profits by 83 percent and employment by 23 percent above the rate of all businesses in those states.

Most importantly, the study found that state and federal direct taxes generated by this increase in performance far exceeded the investment in the program. For every one dollar in federal funds spent on the SBDC program, $9.40 was returned to the federal government in new taxes. For every one dollar in state money supporting the SBDC programs, $10.90 was returned in new state taxes.

A micro view of an SBDC's benefits to the community may be helpful. Two pertinent examples are Massachusetts and Pennsylvania.

The Massachusetts SBDC was created in 1980 and began servicing clients in 1981. The results of three impact sur-

veys of clients receiving five hours or more of counseling and for whch we had economic data indicate the following: 75% increased sales amounting to $100,073,480; 58% increased profits amounting to $20,000,622; 38% increased employment amount to 3,151 new jobs.

This activity has resulted in the generation of over $15 million in new state and federal taxes. When compared to the amount spent on the Massachusetts SBDC for counseling and administration during this period, for every dollar spent on the Massachusetts SBDC program $10 of new state and federal taxes were generated.

In Pennsylvania, according to a survey of SBDC clients, from October 1979 to December 1982, SBDC assisted clients created over 8,000 new jobs. The use of a Chase econometric model estimates an additional 5,700 spin off jobs were created. These jobs translate into over $44 million in increased tax revenues enabling a return of $26.50 to the taxpayer for every $1 in federal funds spent on the SBDC.

Additionally, 46 percent of the survey respondents experienced a profit increase after counseling by a center and 44 percent saw an increase in sales. Further, 82 percent of the respondents stated that they would recommend the SBDC's services to other businesses.

In Wisconsin, the support for the program is even greater as 98 percent of the Wisconsin SBDC clients support the program, plan to use SBDC services again and would recommend SBDC services to others.

Although the SBDC program is still young, these statistics demonstrate that nationally the SBDCs have had significant, positive value to both small businesses and the communities in which they reside. Recently, critics of the SBDC program have referred to a survey which concludes that small business owners will not go to "college and university business administration teachers" for advice in business management. This is probably a true statement but irrelevant to any review of the SBDC program. The fact that 150,000 small businesses sought help from SBDCs in fiscal year 1984 and over 500,000 since its inception belies the argument that they are unwilling to come to the universities.

They are coming in increasing numbers—not to the universities, but to the small business development centers which in some cases are located at universities, but might also be located in a downtown storefront, in a chamber of commerce, or even the office of a local bank.

Once a small business person requests assistance from an SBDC, who is providing the consulting and training services? The SBDC state directors and the SBDC consulting staffs are comprised of people with substantial years of private sector experience and strong educational backgrounds in management, financing, accounting, and other business disciplines. In addition, the SBDC uses many private sector resources to deliver both counseling and training to small businesses. The following table indicates the

qualifications of SBDC state directors, their years of private sector experience, and the use of private sector resources to deliver SBDC counseling and training.

SBDC	Directors education graduate degree		Directors years of private nonacademic sector experience	Percent of SBDC counseling delivered thru private source (cost reimbursement basis)	Percent of SBDC training delivered thru private source (cost reimbursement basis)
	Yes	No			
Alabama	X		5 (management)	10% (30%)	50% (0)
Arkansas	X		3 (CPA)	0	50% (10%)
Connecticut		X	35 (management)	10% (5%)	90% (10%)
Florida	X		2 (manufacturing)	15% (1%)	65% (5%)
Georgia	X		4 (management)	30% (10%)	65% (50%)
Illinois		X	9 (management)	42% (20%)	40% (15%)
Iowa	X		2 (management)	53%	53% (80%)
Kansas	X		7 (management)	50% (95%)	70% (85%)
Kentucky	X		21 (management)	10% (10%)	80% (10%)
Louisiana	X		28 (management)	25% (2%)	15% (0)
Maine	X		15 (management)	10% (100%)	25% (100%)
Massachusetts	X		9 (management)	10% (9%)	64% (58%)
Mississippi	X		12 (management/ industrial development).	10% (100%)	25% (80%)
Missouri	X		20 (management/ business owner).	20% (5%)	65% (15%)
Nebraska	X		3 (technical/journalist)	30% (90%)	25% (80%)
New Jersey	X		4 (technical)	20% (20%)	10% (80%)
New Hampshire	X		3 (management)	10% (5%)	50% (50%)
New York	X		5 (management)	10% (2%)	20% (8%)
Oregon	X		5 (management)	40% (10%)	90% (50%)
Pennsylvania	X		5 (management)	5% (0)	76% (0)
Rhode Island		X	7 (technical)	70% (90%)	40% (50%)
South Carolina		X	20 (management)	7% (65%)	48% (97%)
Tennessee	X		16 (management)	13% (10%)	90% (2%)
Texas (Houston)	X		15 (management)	30% (10%)	60% (50%)
Utah	X		10 (management)	15% (13%)	30% (25%)
West Virginia	X		20 (management)	10% (0)	40% (0)
Wisconsin	X		12 (management)	30% (25%)	50% (48%)

The table therefore presents a telling view of SBDCs. Their staffs are generally very well educated and have anywhere from two to thirty-five years of private sector work experience. SBDC clients are getting service from a high quality resource at a cost they can afford.

Additionally, SBDCs rely to a great extent on the private sector. As the table shows, as much as 70 percent of an SBDC's counseling and 90 percent of an SBDC's training may be delivered through the private sector. This negates the oft-stated criticism that SBDCs compete with the private sector. In fact, only through the leveraging of resources provided by the SBDCs can a private consultants afford to work with the small business clients in that segment of the market addressed by SBDCs. These businesses are small with very limited resources. As they grow and expand their financial bases, these companies will seek out further assistance from private sector consultants on a fee-for-service basis.

> SBDCs are an effective public, private partnership serving to both coordinate and deliver management assistance to small business. By using the federal funding as a base, the SBDCs have become catalysts in their respective states for developing and improving small business management assistance activities. The SBDCs have leveraged the federal money with state, university, and private sector resources to reach a sector of the small business community that would not otherwise receive any assistance.

Allan G. Bense, Executive Vice President and Director of First National Bank in Panama City, Florida, a community bank with approximately 68 million dollars in assets, one of the top volume SBA lenders in the country, located in a community of approximately 100,000 residents, appeared on behalf of the Independent Bankers Association of America to ask the Committee to continue the Guaranteed Lending Programs of the Small Business Administration. The First National Bank is a SBA Certified Lender. Since 1977 the community banks in Panama City have originated 352 guaranteed loans for a total dollar amount of 61 million dollars. First National Bank presently has loans on its books and in servicing in excess of 8 million dollars. Mr. Bense testified as follows:

> The primary reason that we have consistently utilized the SBA program is that we saw it as a means of making loans to small businesses that, for one reason or another, could not be made on a direct loan basis. Due to the fact that banks must maintain liquidity, the making of long term small or medium sized commercial loans was, and still is, almost impossible. Other sources of long term financing were also unavailable because Panama City was simply too small to attract lending by Life Insurance companies, and the local Savings & Loan Associations were reluctant to make commercial loans.
>
> The SBA Guaranty Loan Program enabled banks to correct these market failures which existed in Panama City. By having 90% of our loan to a small businessman guaranteed by the SBA, and with a consistent secondary market available to purchase the guaranteed portion of this loan, we have now been able to provide long term financing for our small business customers that years ago we were unable to make. We are also able to make term loans where the credit was good but because this was a new business, or the existing business had limited capital, or there was a weakness in collateral, we would have not been able to provide financing.
>
> The SBA Guaranteed Loan Program has served to correct market failures which unfortunately exist in our free enterprise economy. Through the development of the secondary market for the sale of SBA guaranteed loans, small banks now have access to the national credit markets that, without he SBA Guaranteed Loan Program, would not be available. The process, quite simply, brings money from the capital surplus areas, such as New York, and redistributes it to the capital deficit areas, such as Panama City.

Thus, for example, I can originate a $100,000 90% SBA Guaranteed loan, sell off the guaranteed portion, or $90,000, and First National Bank gets back $90,000 of that $100,000 loan that we originated. I can take that $90,000 and lend it out to another small business customer who will again employ additional people for that business. If you continue this on, you can easily see that a substantial number of jobs can be created by the proper and effective use of the SBA Guaranty Program.

The vast majority of businesses financed by SBA Guaranteed loans become successful enterprises. Of the 46 SBA Guaranteed loans that we presently have on our books, only one of our loans is over 30 days past due, and I hope that by the time I get back home, that loan is paid current. Of the $20 million dollars or so in SBA Guaranteed loans that I have personally originated, I can think of taking losses on only two or possibily three of those loans. We do not selfishly take advantage of the SBA Guaranty Program and the only reason that we utilize the program is because it helps to stengthen a good potential loan that doesn't quite meet our stringent credit policy.

Contrary to popular belief, we have found that the SBA is probably the most efficient governmental agency that we deal with. Our loan requests are either approved or denied three days from the date they receive a completed application. I find our district SBA Loan Officers to be flexible, knowledgeable and although I don't always agree with their decisions, I respect them for the time and effort that I know they put into our loan requests. The SBA Guaranty Program is the most efficient government program we deal with that effectively utilizes private sector resources and expertise. It allows capital deficit areas, such as Panama City, access to capital that otherwise is unavailable. It allows us to help the John Johnsons and Robert Wards realize their dreams of independence and success—the fundamentals that built our great country. On behalf of the Independent Bankers Association of America, I urge you to remember that the SBA Guaranty program generates far more revenue for the government than it costs the government. Support small business—keep the Guaranty program in effect.

James Fletcher, Vice Chairman of the American Association of Minority Enterprise Small Business Investment Companies (AAMESBIC), presented testimony on minority small business' need for venture capital financing. Mr. Fletcher is also President of the Neighborhood Fund, Inc., a Chicago-based MESBIC designed to help capitalize neighborhood businesses. The Neighborhood Fund was licensed in 1978 as a subsidiary of the Illinois Neighborhood Development Corporation, a bank holding company. Other subsidiaries of that company include the Neighborhood Institute, a not-for-profit neighborhood development corporation, and South Shore Bank, of which Mr. Fletcher also serves as President. South Shore

Bank is known as the Nation's first and only development bank. Mr. Fletcher stated:

> The MESBIC program serves a well-documented public policy objective. MESBICs are mandated to invest "solely in small business concerns which will contribute to a well-balanced national economy by facilitating ownership in such concerns by persons whose participation in the free enterprise system is hampered because of social or economic disadvantages". As OMB Director David Stockman himself has admitted, in some cases public interest and social policy gains outweigh the importance of pure market efficiency.
>
> Although the MESBIC program accomplishes important public policy goals, the public/private sector nature of the MESBIC program insures that investments are made on sound business criteria.
>
> The MESBIC industry has opened new business opportunities—and even new market opportunities—to the minority small business community. During 1984, over 37% of MESBIC investments were targeted towards firms in the transportation, communications, and utiliites industries. In fact, MESBICs have invested in over 75% of the minority-owned communications and telecommunications properties across the country. The expertise of those investment companies has been responsible for financing the majority of minority cable franchises in the country. While other programs are providing support services through procurement programs, minority vendor activities, and fair share agreements, MESBICs are creating business opportunities, expanding existing businesses, and investing in a company's long term success.
>
> Since 1976, the MESBIC industry has invested over $391 million in 4,772 small business concerns. MESBIC investments since 1977 have helped to create or maintain over 75,000 jobs. More importantly in terms of the budget, MESBIC investments since 1978 have generated federal and state tax revenues of approximately $487 million. When combined with the unemployment wages saved through MESBIC job generation, the total benefit over the seven-year period is approximately $886 million. In looking a the annual cost to the government of administering the MESBIC program, the excess government revenue over costs is well over $150 million.

Mr. Fletcher presented the following to show the benefit of the taxpayers' investment in the MESBTC program.

MESBIC investment statistics, 1984

	Financings
Total number of MESBIC financings	1,087
Estimated revenue of MESBIC Portfolio Co	$883,731,000
Estimated total employees	14,131
Estimated Portfolio Co. employee payroll tax:	
Federal taxes	$38,153,700

	Financings
State and local taxes	12,717,900
Total	50,871,600
Estimated Portfolio Co. Corp. taxes paid:	
Federal	11,046,637
State/local	3,976,789
Total	15,023,426
Estimated payroll taxes collected:	
FICA:	
Employees	15,897,375
Company	15,897,375
Total	31,794,750
Unemployment taxes:	
Federal	572,305
State	4,451,265
Total	5,023,570
Total governmental collections	102,710,000
Unemployment wages saved	82,666,350
Annual Federal and State tax benefit	185,376,350
Annual Federal revenue benefit	164,230,000
Cost to taxpayer (SBA leverage cost)	
Preferred stock	12,500,000
Debentures	828,000
Total	13,328,000
Excess of Government revenue over cost	150,902,000
Government cost to benefit ratio	12.32
Government return on annual investment (percent)	1,132

Judith McGough, Executive Vice President of the Allentown Economic Development Corportion in Allentown, Pennsylvania, and past Region III Director for the National Association of Development Companies, presented the Committee with compelling testimony for retention of the LDC program, one of the SBA's several financing assistance programs targeted for "termination" by the administration.

> Allentown Economic Development Corporation is a private, non-profit development corporation serving businesses within the city limits of Allentown, Pennsylvania. AEDC provides technical assistance and financing services to businesses and developers, utilizing a wide range of public and private resources including SBA 503 and 7(a) programs, UDAG, IDB's, Pennsylvania Industrial Development Authority Bonds, SBIC loans, private venture capital, and locally developed loan programs. AEDC has been successful in attracting more than $100 million of new investment in Allentown and creating over 2,700 employment opportunities. In 1981, the unemployment rate in Allentown was 14.5 percent. Today, unemployment is down to 7.8 percent—we believe as a direct result of the successful economic development efforts in our city.

I would like to outline the benefits of SBA credit programs, particularly the 503 loan program. SBA's credit programs for small business serve a vital public purpose for the country as a whole—they provide long-term, affordable sources of financing to viable small businesses that is not available through other sources. These businesses in turn add needed jobs and tax revenues, locally and on a national level. SBA's credit programs have a significant impact on small businesses that are active in the credit markets. These programs reach 11 percent of the small businesses that enter the credit markets. SBA's 503 program, in particular, uniquely fills the long-term credit gap of growing small businesses by providing fixed-asset, bricks-and-mortar financing at affordable rates for up to 25 years.

The program can make the difference between getting a chance to grow and stagnating. For example, a tool and die company in Columbus, Ohio, wanted to construct a much larger facility and add equipment in order to take advantage of government contracting opportunities. Total cost of the project was $400,000. The firm's bank offered it five years on 70 percent of the equipment costs, at a floating rate 2 percent over prime. On the real estate, the bank offered 10 years on 70 percent of the cost (ballooning at 7 years), at prime plus 1½ percent. The business's first year debt service would have been $57,300. Downpayment would have been $120,000.

The situation changed when the 503 became involved. Since the bank's portion of financing was reduced to 50 percent, it agreed to make one consolidated loan, with a 15-year term, at prime, plus 1 percent. The annual cost to the business was reduced by about $14,000 because of the 503—and its downpayment fell from $120,000 to $40,000. The business could not have afforded the expansion without the 503.

For the most part, the jobs created are unskilled or require little training and experience. These are the jobs that take—and keep—people off the welfare roles, and hold the line on unemployment compensation and other federal programs designed to assist the unemployed. In other words, this federal jobs program works by targeting jobs to the areas and people who need them most.

The SBA 503 program, while participating in almost $2 billion of capital growth in this country, has a loss ratio of only 1.6 percent, which is more than offset by new job opportunities and added tax revenues.

The SBA 503 program is a sound, private/public partnership that leverages limited public funds with local private investment dollars—with a payback to all parties involved. It does not replace the private marketplace—it supplements the private capital market. Most important, it provides impetus to bring needed private capital to qualified small businesses.

50-422 O - 85 - 3

Walter B. Stults, President of the National Association of Small Business Investment Companies (NASBIC), the national trade association for the SBIC industry, testified in favor of an independent SBA and in support of H.R. 1281, to assure funding authority for SBA and its financial assistance program which are vital to small business. Mr. Stult's testimony was an extensive discourse on the need for venture capital for small firms.

> In ordinary times, this three-year authorization legislation would be critically important to our industry, since it provides the basic authority for SBA to provide loans to fully-invested SBICs and MESBICs. Our efforts have been somewhat hampered over the past several years when no one was certain how many dollars, if any, SBA would have to lend to the industry.
>
> Today, however, the legislation before you is immeasurably more significant, because it stands in stark contrast to the Administration's proposal to kill all of SBA's financial assistance programs. NASBIC's Board of Governors has made the preservation of SBA and its effective financial programs our industry's highest legislative priority, so we made this statement in favor of H.R. 1281 with no reservation. It is a positive response to a completely negative proposal.
>
> There is no subsidy in the SBIC program!! When SBICs borrow from the Federal Financing Bank, with an SBA guaranty, they pay more than the cost of money to the Treasury. For the past eighteen months, operating SBICs and those applying for licenses have paid sufficient fees to cover most of the costs of operating the investment arm of SBA. In addition, for the past four months, SBICs have paid a "user fee" to SBA when they borrow. SBICs will pay the SBA more than $2-million each year in user fees. This source of income alone will offset all the administrative costs of the program, wihout taking into consideration taxes paid by SBICs themselves, their partners or shareholders, and the increased taxes paid by SBIC portfolio companies and their employees.
>
> The SBIC program has proven to be an exceedingly low-risk undertaking for the Government. In spite of the fact that most SBICs are venture investors and we find that losses are inevitable in our business, the industry's record since 1958 clearly confirms that, on a composite basis, the performance of the entire portfolio of all SBICs overcomes such losses by a substantial margin. I am sure I need not remind you that each SBIC bears 100% of each loss it sustains and SBA loses only after the entire capital of the SBIC is wiped out. This is the genius of the program—private dollars are at risk.
>
> Mr. Stockman implied in his Senate testimony on the SBA that we do not need SBICs now that a large venture capital industry exists. I reject that conclusion for five reasons.

(1) SBICs still account for about 15% of the resources of the total venture capital universe and the loss of the more than $2-billion committed to SBICs would be an enormous blow to U.S. small businesses.

(2) Every SBIC and venture capital manager tells me that the entire venture capital industry cannot finance all the qualified investment opportunities it sees—it's not a case of 'too many dollars chasing too few good deals'.

(3) Most SBICs invest in situations which are not feasible for other venture capital firms. By using leverage, SBICs can make an acceptable return on their invested capital by providing funding to entrepreneurs in traditional industries. For that reason, SBICs are able to assist a much wider range of businesses than the firms in other segments of the venture capital industry. The statistics bear this out. In 1984, for example, private venture funds invested some $3.4 billion in only 900 companies—an average investment of about $4.0 million. By comparison, SBICs invested $425 million in 2,755 small companies—an average investment of $155,000. Clearly, SBICs are serving a much differnt market than the private venture funds.

(4) The SBIC industry has a far greater geographical dispersion than the rest of the industry; there are licensees in 46 States. Small business benefits from this broad distribution of SBICs.

(5) The highly cyclical nature of the non-SBIC segment of the venture capital industry could mean that no venture capital dollars would be available if there were no SBICs. Mr. Carlson of Cray Research testified that his company was able to raise money only from an SBIC, because there were almost no active venture capital firms in 1975. Cray was not the only firm facing that situation in the mid-70s; SBICs constituted almost the only game in town during those five or six years. The same situation prevailed from 1963 to 1968 when almost every venture capital dollar invested came from SBICs. I believe we may face that condition again in the coming years, so it would be folly to wipe out the SBIC industry.

I challenge anyone to tell me that SBICs are an "un-American" aberration in our free enterprise economic system!! The private sector and SBA have joined in this unique partnership program; we've put up the capital and the management skills—and the risk of loss—while the Federal Government has provided some important incentives to encourage the expansion of our activities.

APPENDAGE TO NASBIC TESTIMONY OF APRIL 30, 1985

SBIC PROGRAM: A PUBLIC-PRIVATE PARTNERSHIP THAT WORKS

Since their inception in 1958, SBIC's have provided $5.0 billion in venture capital to approximately 70,000 firms. Many of these small firms have experienced remarkable economic growth, generating new jobs and revenues. In the last ten years, SBA estimates over

250,000 new jobs have been created by small firms receiving SBIC financing.

Examples of small companies that received financing from the SBIC Program:

	At time of SBIC financing				As of last available data				
	As of—	Sales	Profits	Employees	As of—	Sales	Profits	Taxes	Employees
Apple Computer, Inc	Sept. 30, 1977	$773,977	$41,575	63	Sept. 30, 1983	$982,769,000	$76,714,000	$69,408,000	2,050
Federal Express Corp	June 30, 1973	6,769,112	(4,460,896)	518	May 31, 1984	1,436,305,000	115,430,000	(15,964,000)	18,400
Intel Corp	Dec. 31, 1969	565,874	(1,887,808)	218	Dec. 31, 1983	1,121,943,000	116,111,000	62,344,000	19,400
Rolm Corp	July 3, 1970	292,253	(358,586)	32	July 1, 1983	502,642,000	60,952,000	25,409,000	7,049
Cray Research, Inc	Dec. 31, 1972	58,327	(3,137)	12	Dec. 31, 1983	125,008,000	26,071,000	19,991,000	1,551
Pandick, Inc	May 31, 1965	3,315,665	55,497	655	Aug. 31, 1983	121,086,000	10,038,000	9,653,000	1,300
Lifetime Systems, Inc	Dec. 31, 1979	707,000	(260,000)	19	Dec. 31, 1983	9,644,000	348,000	12,000	220
Digital Switch Corp	June 30, 1979	0	(639,532)	20	Dec. 31, 1983	127,052,000	25,473,000	19,737,000	894
NBI, Inc	June 30, 1976	451,186	(859,809)	55	June 30, 1983	96,780,000	4,590,000	1,095,000	1,846
Network Systems Corp	Dec. 31, 1975	25,690	(348,099)	12	Dec. 31, 1983	47,030,000	10,030,000	7,275,000	462
Recorded totals		12,959,084	(8,720,975)	1,604		4,570,259,000	445,757,000	198,960,000	53,172

A number or government officials who were unable to come to the National Hearings in Washington, D.C., nonetheless wanted the Committee to know of their support for its efforts.

The following Governors submitted testimony or letters in support of a continued, independent U.S. Small Business Administration as being beneficial to their States:

The Honorable Mark W. White, Jr. of Texas.
The Honorable William A. O'Neill of Connecticut.
The Honorable Mario M. Cuomo of New York.
The Honorable Thomas H. Kean of New Jersey.
The Honorable Richard D. Lamm of Colorado.
The Honorable Toney Anaya of New Mexico.
The Honorable Martha Layne Collins of Kentucky.
The Honorable John Carlin of Kansas.
The Honorable Michael S. Dukakis of Massachusetts.
The Honorable Terry E. Branstad of Iowa.
The Honorable Edwin W. Edwards of Louisiana.
The Honorable William Sheffield of Alaska.
The Honorable Victor Atiyeh of Oregon.
The Honorable Edward D. Diprete of Rhode Island.
The Honorable George R. Ariyoshi of Hawaii.
The Honorable Richard F. Celeste of Ohio.
The Honorable Wayne Mixson of Florida.

Also, Petitions and Memorials were received calling upon Congress to maintain an independent and funded U.S. Small Business Administration from the following State Legislatures and governing bodies:

The State Senate of Oklahoma.
The State Senate of Illinois.
The State Senate of Kansas.
The Senate and House of Representatives of the State of Maine.
The Senate of the Commonwealth of Massachusetts.
The Legislative Assembly of the State of North Dakota.
The Legislature of the Territory of Guam.
The Council of the City of New York.
The Legislature of the Virgin Islands of the United States.

Need for the Legislation

The bill H.R. 2540, as introduced, incorporates H.R. 1281 but with savings of $1.3 billion.

Recommended Authorizations for Fiscal Years 1986 Through 1988

Prior to October 1, 1977, the Small Business Act authorized the appropriation of such sums as necessary to carry out the provisions and purposes of the Act; and the Small Business Investment Act authorized the appropriation of specific cumulative dollar amounts to carry out the programs authorized by that Act. Effective October 1, 1977, open-ended authorizations for programs and payment of salaries and expenses were sharply curtailed. Public Law 98–59 amended the Small Business Act to specifically authorize the dollar amount of program levels for fiscal years 1978 and 1979; to author-

ize the appropriation of the dollar amount needed to carry out the program levels specified; and to authorize the appropriation of amounts necessary to carry out Small Business Act programs for which specific dollar authorizations are not provided. The Small Business Committee has determined, after substantial experience, that multi-year authorizations for the Small Business Administration are absolutely necessary. Such authorizations give Congress, the Executive, and the small business community a clear indication of goals and priorities for a reasonable period of time and permit the Administration to know authorizing provisions prior to developing the budget proposals.

The Subcommittee's hearings in this and the last Congress have shown that the administration's efforts to terminate or reduce drastically loan and other programs of the Small Business Administration are misguided. Small and medium-sized firms continually need large amounts of credit to participate in the projected economic recovery and the country needs the thousands of new jobs these businesses will generate. Often, the Committee has found some banks are far too interested in providing debt capital to large projects in high-growth areas. Although banks have a duty to their depositors and shareholders, they often neglect the small business community that surrounds them. This phenomenon, coupled with the major and continuing outflow of debt funds to foreign loans of questionable value, adversely affect small businesses which are unable to find another source of funding.

The Committee is in agreement that deficits must be controlled and reduced. However, the premise of H.R. 2540 as introduced is that by holding SBA loan programs, in the main, at 1985 appropriated levels, the small business community would be better served than by making unwarranted cuts.

Business loan and investment fund fiscal year 1985 appropriated program levels

	Millions
General business loans:	
Direct & IP	108
Guaranteed	2,650
Handicapped loans:	
Direct & IP	24
Guaranteed	5
Economic business loans:	
Direct & IP	45
Guaranteed	60
Energy loans:	
Direct & IP	3
Guaranteed	15
Development company loans:	
Direct & IP	5
Guaranteed	450
Investment company loans:	
Direct & IP	47
Guaranteed	265
Veterans loans:	
Direct & IP	25
Guaranteed	0
Total business loans:	
Direct & IP	257
Guaranteed	3,445

NEW DIRECT LOAN PROGRAM

The SBA provides financial assistance to qualifying small businesses in two principal ways. Most assistance is in the form of guarantees of commercial loans. However, the agency can also make loans directly to small businesses to obtain commercial financing even with a government guarantee.

Some individuals and businesses find it virtually impossible to obtain commercial financing, no matter how meritorius their proposal may be. The direct program fills an important gap in helping these businesses get started and to enter the mainstream of the economy, while at the same time creating jobs and promoting innovation.

Of the $257 million approved for new direct loans, $108 million was available to qualifying small business generally, and the balance is earmarked for specialized loan programs. These include $24 million for handicapped assistance loans, $45 million for loans to businesses in areas of high unemployment or owned by low-income individuals, $3 million for businesses developing or marketing new energy conservation technology, and $25 million for loans to veterans.

Recently, there has been substantial criticism of the direct loan program. Some have argued that the high rate of past due loans, the small amount of funds and the substantial amount of paperwork necessary for these loans indicates that they should be abolished. SBA has attempted in the past several years to improve the quality of direct loans, but some would argue that the loss rate is still too high when compared to losses under the guarantee programs.

7(a) guaranteed loans, a reaffirmation

The Committee, unlike certain administration critics, has long been aware of the beneficial role of the Small Business Administration's 7(a) guaranteed loan program. The SBA's primary lending program enables commercial lenders to make long-term loans to small businesses which SBA guarantees to repay in the event of borrower default. Any administration move toward abolishing the 7(a) program would seriously weaken lenders' ability to respond to small businesses in need of long-term financing.

The 7(a) program rests on a solid foundation of supporting data. The General Accounting Office made a study of 951 lenders participating in the program to determine how the 7(a) program interacts with the credit market in financing small business ventures. These lenders were scientifically selected from among 8,900 small, medium and large lenders that made SBA-guaranteed loans during fiscal years 1979–81.

GAO received and analyzed 739 responses. These responses showed that the SBA guarantee was an important factor in banks' decisions to lend to new businesses and to businesses with less equity than banks usually require. About 82 percent of lenders responding indicated that 7(a) guaranteed loans either would not have been made without the SBA guarantee or would have been made on more stringent terms. The assistance also helped provide jobs.

Banks are more willing to make longer maturity loans to small businesses with the guarantee. For example, lenders responding to GAO estimated that 74 percent of SBA guarantees carry maturities of 6 or more years, whereas only 15 percent of non-SBA small business loans help small businesses to maintain an adequate cash flow.

The guarantee increases banks' ability and willingness to make larger loans because the guaranteed portion of the loan does not count against federally regulated lending limits. Some 43 percent of responding lenders said the guarantee enabled them to make larger loans than otherwise permitted by bank policy regulations.

The Committee remains convinced that the impact of the administration's proposed program termination and budgetary reduction on small businesses' ability to obtain long-term loans are against the data on program demand and are cleary misguided. Therefore, H.R. 2540, as introduced, provides 7(a) guarantee program level authority of $3.18 billion, the same level as 1985.

Disaster assistance

The Small Business Administration provides loan assistance to disaster victims, including homeowners, businesses, and nonprofit institutions. When disaster strikes it is important that damaged property be replaced or repaired and businesses be provided with adequate working capital for recovery as soon as possible. SBA disaster loans serve this purpose and minimize disruption of jobs, business revenues, and taxes. In so doing, they play a vital role in restoring the economic health of a disaster-stricken community, often making the difference in the survival of business necessary to that recovery.

During fiscal 1984, 14,133 disaster loans were approved for more than $314 million to businesses, homeowners, and others affected by hurricanes, tornadoes, earthquakes, flooding, windstorms, hail, mudslides, fires, and other disasters. During fiscal 1983, 12,233 disaster loans were approved for more than $198 million.

The Committee was shocked by the administration's proposal to terminate assistance to all disaster victims. The Committee can only conclude that the White House was unaware that SBA disaster loans play a vital role in rebuilding homes and restoring the economic health of a disaster-stricken community, often making the difference in the survival of businesses necessary to that recovery.

Labor surplus area procurement

Under section 15 of the Small Business Act, qualified small business concerns participate in their fair share of Federal Government contracts for goods and services. The Committee continues to be concerned regarding maintenance of this fair share and that procurement dollars be used in a manner best calculated to yield the highest possible return to the taxpayer. In order to achieve this purpose, it is necessary that procurement funds where feasible be positively correlated with job creating potential, and that opportunities for economic stimulus as measured by the number of unemployed be maintained.

Small businesses create more of the net new jobs than large firms do. This impact is even higher in areas of economic distress, small concerns can provide as much as 80 jpercent of net new jobs. Prior Committee action directs all Federal agencies to target contracts and small business set-asides to firms in or near areas of high unemployment according to a hierarchy of need, with small businesses in labor surplus areas at the top of the list. However, the Committee has been advised of an unintended hardship in curent Department of Labor labor surplus area (LSA) determinations. This problem is addressed by Mr. Seiberling's bill H.R. 447.

Rather than only using countywide statistics to determine eligibility, the Department has relied on a system which also considers subcounty jurisdictions over 50,000 population on an individual basis. Commendably, this has helped target the LSA designations to specific, rather than broad, areas. However, it has created two problems: First, the system treats small cities inequitably, providing for designation of cities over 50,000 but not for cities under 50,000 suffering from similar rates of unemployment. Second, this inequity is exacerbated in counties with cities over 50,000 population. Those large cities—which tend to have higher than average unemployment rates—are separated from the rest of the smaller cities, suburbs, and rural areas, leaving the "balance of county" with a somewhat depressed unemployment rate. Ironically, in some cases, if the larger cities were not separated from the rest of the county, the county would qualify for assistance and, through the county, the smaller cities as well.

Since targeting of the designations has been so long a practice and is arguably the preferred way of computing eligibility and directing certain federal procurement, there is a need to refine the Department of Labor existing targetting procedures to allow smaller cities to qualify on their own for LSA status. H.R. 2540 accomplishes this objective.

H.R. 2540, as introduced, program levels and modifications

On May 16, 1985, the Chairman introduced H.R. 2540, legislation to reauthorize the Small Business Administration for fiscal years 1986 through 1988 and save some $1.5 billion more than a freeze in current programs alone would save.

The Chairman had introduced an earlier version of this bill, H.R. 1281, which provided a similar 3-year authorization and would have yielded savings of some $320 million. Since introduction of the initial bill, the Subcommittee held field hearings in seven cities and an additional three days of hearings in Washington at which testimony was heard from over 200 small businesses. Their message, along with the one received from a bipartisan group of some two dozen Governors and State legislatures is the same: Save the SBA and leave it viable. The Committee wholeheartedly agrees with this message. But the Committee foresaw that the mood in Congress requires an even greater reduction in outlays by the Small Business Administration. As a result, the Chairman revised the earlier legislation in order that H.R. 2540 as introduced would achieve savings of some $1.5 billion over the next 3 fiscal year as compared to a 1-year freeze.

The program level for surety bond guarantees would be set at $900 million. The program level for the pollution control bond guarantees would be set at $50 million. The level of salaries and expenses to operate the Small Business Administration would be frozen at $205.34 million.

An innovation in H.R. 2540 prohibits the Federal Financing Bank from acquiring debentures issued by small business investment companies with an SBA guarantee. Existing law authorizes the Federal Financing Bank to purchase these debentures which it does with money derived from the Treasury. The bill would prohibit this and instead have SBA sell the debentures to investors, thereby eliminating Federal outlays as the SBA guarantee is only a contingent liability. This is an extremely contingent liability that in the approximately 25 years in which this program has operated, SBA has guaranteed $2 billion in debentures and has lost only $36 million. The bill further limits the amount of assistance which may be provided annually under the Surety Bond Guarantees Program to $900 million per year and under the Pollution Control Bond Guarantee Program to $50 million per year.

Transfer of Residual Functions to Commerce, a Rejection

PROCUREMENT FUNCTIONS

Although the focus of the Committee's efforts in this Congress has been assuring through enactment of H.R. 2540, that there will be an independent SBA with financing, management assistance and disaster loan programs in place, the record must also reflect its disagreement with the administration's plan to transfer SBA's remaining functions to the Department of Commerce, especially procurement and advocacy.

This Committee is charged with the responsibility to carry forward a policy embodied in the Small Business Act of 1953: to insure a fair proportion of the total purchases and contracts or subcontracts for property and services for the Government . . . be placed with small business enterprise. However, the small business share of Federal contracts continues to be inadequate. Congress has always insisted on small business participation in Government procurement because it improves and broadens the competitive base and the defense industrial base; provides innovative technology; lowers procurement costs; performs a vital role in industrial mobilization; and disperses procurement funds industrially and geographically. Unfortunately, the share of the Federal prime contract dollar awarded to small business is disproportionately low despite the fact that by Federal definition, over 98 percent of all business establishments are classified as small. Statistics also indicate that this trend is not improving. Evidence further indicates that Federal procurements are highly concentrated in the hands of a few large business concerns.

Now is not the time to deemphasize small business procurement but to improve the small business community's access to Federal procurement and increase contracting opportunities. This is not the time to establish a new system with all the conflicts of interest

problems inherent in putting small business procurement programs in a Cabinet agency for big business.

For example, to promote set-aside contract opportunities for small concerns SBA has procurement center representatives stationed at all Federal installations, both military and civilian, which have major buying programs, and some assigned on a liaison basis to installations with smaller, but still significant, buying programs. When the procurement center representative recommends that a requirement be procured under a small business set-aside, and that recommendation is rejected by the contracting officer, or when the recommendation of the small business specialist of the installation for a set-aside is rejected by the contracting officer, the SBA as an independent agency has the right to appeal this rejection to the Secretary of the Department or head of the agency involved.

If at all possible, procurement center representatives will recommend that such requirements (including those for architectural and engineering services, research, development, testing and evaluation) be processed as small business set-asides. This means that the procurement would be restricted to small business firms only, and large business firms would not be permitted to submit bids or proposals on the procurement. This is often at odds with the procuring agencies bias toward established big business sources.

Another example would be the subcontracting program established under P.L. 95-507 to (1) enable small business concerns and small business concerns owned by the disadvantaged to be considered fairly as subcontractors and suppliers to contractors performing work as prime contractors under Government contracts; (2) insure that such prime contractors and subcontractors will cooperate with the appropriate procurement agency and with SBA; and (3) enable SBA as monitor and independent advocate to obtain from any Government agency information concerning subcontracting by its prime contractors and their subcontractors. Only an independent agency could monitor compliance with these programs government-wide.

The Committee notes with great disapproval the most blatant example of this administration's plan: the administration's disingenuous and/or ill-advised proposal to "transfer" the Small Business Administration's Minority Small Business and Capital Ownership Development Program which is designed to make more business opportunities available to minority individuals. This program brings together all SBA's services and those of private industry, banks, local communities and other Government agencies to substantially increase the number of and opportunities for minority owned businesses. Through this program those eligible firms are assisted in developing the capability to compete effectively in the nation's marketplace.

As part of this program Section 8(a) of the Small Business Act authorizes SBA to act as prime contractor and to enter into contracts with the United States Government and any Federal department, or agency for their procurement needs. This authority, together with the aforementioned other financial, technical and management resources at its disposal, allows SBA to contract to supply their goods, services, and construction needs, by subcontracting for the actual performance of the work to 8(a) companies. Note that by

statute the firms that are awarded 8(a) contracts must receive management and technical help in planning and operating stages of the business, and must participate in a "Capital Ownership Program" as a condition of receiving 8(a) contracts.

And what are the programs at SBA's disposal to successfully operate its MSB/COD program?

1. *Financial Assistance.*—SBA can make direct business loans to minority borrowers. Minority small business loans can be made under any of SBA's business loan programs; however, a specific amount of direct loan funding and loan guarantee authority is reserved only for businesses located in areas of high unemployment or businesses owned by low-income individuals. More than three-fourths of these "economic opportunity" loans go to minority businesses.

2. *Management Assistance.*—In addition to SBA's own management assistance specialists, the agency can contract for private sector business consultants to counsel businesses owned by economically and socially disadvantaged individuals or businesses located in areas of high unemployment.

3. *Long Term and Equity Capital.*—Specialized investment companies may provide equity funds, long-term loans and management assistance to small firms owned by socially or economically disadvantaged persons though the MESBIC program.

4. *Bonding Assistance to Firms.*—Minorities can benefit from surety bond guarantees up to $1,000,000 on construction or services contracts. Contract financing may be available to any small firm with an assignable contract.

What do these four programs which are diverse in nature but which form the conerstones of the SBA's MSB/COD program which was to be "transferred" to the Department of Commerce have in common? Each and every one had been terminated in the administration's proposal!

THE OFFICE OF ADVOCACY

The Office of Advocacy has two main objectives: to reduce the burdens that Federal policies impose on small firms, and to maximize the benefits that small firms receive from the government. Several departments within Advocacy are working to achieve these goals. Advocacy has the role of "ombudsman," fighting for individual businesses—or groups of businesses—that feel that government ignores their interests.

As vital as small businesses are to the economy, however, they are often ignored by the government when laws are being made or regulations are implemented. Because they are small, and have so many varied interests and concerns, they are easily overlooked. Small business needs an independent legislatively-mandated spokesman at a high level of government. The Chief Counsel for Advocacy at SBA is the advocate for small business within the Federal bureaucracy—not because small business is just another special interest group in the economy, but because small business is that part of the economy most critical for the achievement of the largest number of national goals.

50-422 O - 85 - 4

By Congressional mandate, the Chief Counsel for Advocacy was charged to perform the following duties on a continuing basis: (1) serve as a focal point for the receipt of compliants, criticisms, and suggestions concerning the policies and activities of the Administration and any other Federal agency which affect small business; (2) develop proposals for changes in the policies and activities of any agency of the Federal Government which will better fulfill the purposes of the Small Business Act and communicate such proposals to the appropriate Federal agencies; and (3) represent the views and interests of small businesses before other Federal agencies whose policies and activities may affect small business.

For the past several years the Small Business Committee have been trying to raise the visability of SBA and small business needs to the highest program and policy levels in the Government and give the SBA the additional tools it must have to fully respond to small business requirements. Congress has often found that when major policy measures are initiated by any administration, the impact of such initiatives upon small business is not sufficiently taken into account. When agencies and departments made their legislative proposals, they often are not aware of the disproportionate impact their proposals would have on smaller concerns.

It is also important to remember that direct communication between the nation's 14 million small businesses and the Congress is necessary to perform oversight and legislative functions. This is accomplished by section 206 of Public Law 94-305 which specifically states that "The Chief Counsel may from time to time prepare and publish such reports as he deems appropriate . . . The reports shall not be submitted to the Office of Management and Budget or to any other Federal agency or Executive Department for any purpose prior to transmittal to the Congress and the President."

The Chief Counsel for Advocacy has a different mission than that assigned to the rest of SBA. Strictly speaking, the Advocate, although part of the agency, is not in the SBA chain of command; he is a Presidentially appointed official with Senate confirmation. The Chief Counsel must represent the views of small business and in carrying out this mission is expected to present and fight for the views of the small business sector of the economy throughout the government. The views will not always be the same as those expressed by the SBA on bahalf of the administration. Just as the attorney presents his client's position, the Chief Counsel for Advocacy presents his client's position: that of the small business community.

This tradition established by Public Law 94-305, that the Chief Counsel for Advocacy is responsible to the Congress and the Federal Government for the presentation of the views of the small business community, not necessarily his views or the views of the administration then in office, has been carried forward to the present day. It is the cornerstone of the office and is exemplified by the independent reports and testimony the Advocate is able to give when called upon for the small business position, the advice available to government as to what impact a given law, or regulation will have on small entities, and by the Office's responsibilities for the White House Conference on Small Business.

Within the statutory framework created for the Advocate and that office's responsibilities, a transfer of functions from an independent agency to the Department of Commerce would be possible.

COMMITTEE MARKUP

H.R. 2540 was held in full Committee. The Committee began mark-up on June 6, 1985 and completed it in subsequent session on July 10, 1985.

SUMMARY OF ACTION TAKEN, MARKUP ON H.R. 2540

JUNE 6, 1985

1. Approved by voice vote the Conte amendment, as further amended by Mitchell and Skelton, to direct SBA to study the imposition of user fees and to report to Congress thereon sixty days after enactment of the bill.

As originally proposed, the Conte amendment would have required SBA to impose such fees as the Administrator deemed appropriate, including fees for—

(A) publications provided by the Administration,

(B) processing applications for—

(i) guaranteed or other loans,

(ii) grants (including grants for establishing small business development centers), or

(iii) other assistance, which may be provided by the Administration, and

(C) determining whether any business is a small business concern (or any type of such concern) for purposes of enabling such business to be eligible for any assistance or preferential treatment under this or any other Act.

The fees would not have benefited SBA but would have gone directly to the Treasury and they would have gone into effect unless a law was enacted stopping them.

Earlier the Committee approved by a vote of 22–20 a Mitchell amendment to the Conte amendment which eliminated the directive to impose the fees; instead Mitchell would require SBA to report its recommendations to Congress which then would consider the imposition of fees.

Also earlier the Committee approved by voice vote a Skelton amendment to the Mitchall amendment which requires the Administrator to report on the effect of imposing on the lender an annual fee of between ¼ of 1 percent and 1 percent of the unpaid loan balance. (Note Item No. 15 which supercedes this action.)

2. Approved by a vote of 24–18 two McDade amendments, as further amended by a Mitchell amendment, to eliminate direct loans except $15 million for handicapped loans, $20 million for Veterans loans and $45 million for economic opportunity loans, all annually, and to eliminate Section 1 of the bill which would have modified the existing direct loan program provisions.

As originally proposed, the McDade amendments would have eliminated all direct loans except for handicapped and Veterans.

Earlier the Committee approved by a vote of 22–20 a Mitchell amendment to restore economic opportunity direct loans at an annual level of $45 million.

Also earlier the Committee failed by a tie vote of 21–21 to approve a Mitchell amendment to restore $5 million to the handicapped direct loan level proposed by the McDade amendment, an amount which would have brought it up to this year's level.

Also earlier the Committee failed by a tie vote of 21–21 to approve a Mitchell amendment to restore $5 million to the disabled and Vietnam era Veterans direct loan level proposed by the McDade amendment, an amount which would have brought it up to this year's level.

3. Failed by a tie vote of 21–21 to approve a Hiler amendment to reduce the annual amount of loan guarantees by $330 million, a reduction of approximately 10 percent. (But, see Item No. 4.)

4. Approved by a vote of 20–19 a Hiler amendment to reduce the annual amount of loan guarantees by $318 million, a reduction of 10 percent.

5. Rejected by voice vote a Hiler amendment to reduce Salaries and Expenses by approximately $7 million which would have been achieved by reducing the number of SBA regional offices from ten to seven.

6. Approved by a vote of 21–19 a McDade amendment to prohibit SBA from making disaster loans to agricultural producers and to repeal the nonphysical disaster loan program.

7. An Addabbo amendment to deny any type of SBA assistance to those firms or affiliates doing business in or with South Africa was withdrawn.

8. Approved by voice vote a Hiler amendment to require SBA to charge a three point fee on a guaranteed loan instead of the one point fee now being charged.

9. Failed by a vote of 18–22 to approve a Hiler amendment to reduce the amount of a guarantee on small loans ($100,000 or less) and the maximum amount of a guarantee on larger loans to 75 percent (now 90 percent).

10. Approved by voice vote a Mitchell amendment to allow certified development companies in 1986 to sell $100 million in debentures to private investors rather than to the Federal Financing Bank.

11. Approved by voice vote a Mitchell amendment to allow SBIC debentures to be pooled and sold in the secondary market the same as guaranteed loans may be pooled an sold.

12. Approved by a voice vote a Mitchell amendment to impose greater penalties for contract fraud involving small busine[illegible]tus or disadvantaged small business status.

13. Approved by a voice vote a Dreier amendment req[illegible] SBA to study and report on the options available to providing loa[illegible] guarantees from sources other than the Federal government.

14. Approved by a division of 11–8 a Cobey amendment to prohibit SBA loans to applicants who perform abortions, engage in research about abortions, promote or recommend abortions or who train others to perform abortions unless the abortions are performed, promoted and recommended only where the life of the mother would be endangered if the fetus were carried to term.

15. Approved by a division of 13–7 a Conte amendment requiring SBA to impose fees for processing applications, making determinations of eligibility for assistance or preferential treatment under the Small Business Act or for providing publications. This amendment is a substitute for that described in Item No. 1 except for the Skelton study.

WHAT THE BILL WOULD DO

The bill would make changes in the direct loan program and provide a three-year authorization for SBA. Funding for the three remaining direct loan programs would be reduced 60 percent from the amounts contained in the regular appropriations bill for Fiscal Year 1985; guaranteed loan levels would be reduced by 10 percent; and SBA salaries and expenses would be frozen.

DIRECT LOAN PROGRAM

The bill would eliminate the general 7(a) direct loan program which since the agency's inception has been available to all small concerns. Future direct loans would be restricted to three specialized categories previously established in the Small Business Act. The program levels for direct loans for each of Fiscal Years 1986 through 1988 under the remaining programs, i.e., handicapped, economic opportunity, and veterans loan programs would be reduced from the amount appropriated for 1985 ($206 million) to $80 million annually, a reduction of $126 million or 60 percent. MESBICs direct funding would be frozen at $41 million for each of Fiscal Years 1986 through 1988.

GUARANTEED LOAN LEVELS

The aggregate program level for guaranteed loans under the 7(a) regular business, handicapped, economic opportunity, energy and development company loan programs would be reduced by 10 percent from the 1985 appropriated level of $3.18 billion to $2.862 billion. SBICs would be frozen at $250 million. Also SBIC and certain CDC 503 debentures would be sold to investors rather than acquired by the Federal Financing Bank.

DISASTER LOAN LEVELS

The $500 million program cap for 7(b)(1) and (2) physical disaster loans in Fiscal Year 1986 would be eliminated. The authorization for nonphysical disaster loan programs under section 7(b)(3) and 7(b)(4) would be eliminated.

SURETY BOND GUARANTEES

The program level for the surety bond guarantees programs would be set at $900 million for each of Fiscal Years 1986–1988.

POLLUTION CONTROL BOND GUARANTEES

The program level for the pollution control bond guarantees program would be set at $50 million for each of Fiscal Years 1986 through 1988.

SALARIES AND EXPENSES

The level of salaries and expenses to operate the agency would be frozen at $205.34 milion for each of Fiscal Years 1986 through 1988.

LABOR SURPLUS AREA

The Secretary of Labor in making Labor Surplus Area (LSA) determinations using any population criteria for purposes of priority of award of contracts under section 15 of the Small Business Act, would be required to consider populations of 25,000 or less.

PRIVATIZING SBIC DEBENTURES

Under existing law, debentures issued by SBICs are guaranteed by SBA and purchased by the Federal Financing Bank. Under the unified budget approach these guarantees are picked-up and included in the budget even though they are off-budget. The bill would prohibit the Federal Financing Bank from purchasing the SBIC debentures which will be sold to private investors by the SBA or its agent as was done some 10 years ago. This prohibition removes the debentures from the unified budget.

SBA would be directed to sell $250 million of SBIC debentures to investors and to report to Congress. To facilitate sale of the debentures, SBA or its agent would be authorized to sell certificates representing fractional interests of a pool of the $250 million in SBIC debentures.

Under existing law, debentures issued by 503 development companies are guaranteed by SBA and purchased by the Federal Financing Bank. Under the unified budget approach, these guarantees are picked-up and included in the budget even though they are off-budget. The bill would prohibit the Federal Financing Bank from purchasing Pilot Program 503 debentures of up to $100 million which would be sold to investors by the SBA. This prohibition would remove the debentures from the unified budget.

SBA would be directed to sell $100 million of the otherwise authorized amount of 503 debentures to investors and to report to Congress. Funding for the "regular debentures" which would still be sold to the Federal Financing Bank would be reduced from $450 million to $350 million.

To facilitate sale of the 503 debentures, SBA would be authorized to market trust certificates representing fractional interests in a pool of the $100 million in 503 debentures.

DISASTER ASSISTANCE

Agricultural enterprises would be excluded from eligibility for physical disaster assistance under 7(b)(1) and 7(b)(2) of the Small Business Act. The 7(b)(3) Federal Government Impact Loan Program and the 7(b)(4) Economic Injury Loan Program would be abolished.

CONTRACT FRAUD

H.R. 2540 would amend the Small Business Act by adding criminal provisions dealing with small and minority business front companies to clarify whether existing Federal anti-fraud statutes cover situations when the misrepresentation is made to other than the Federal government, such as in grant or subcontract situations. The penalty under the general anti-fraud statute is a fine of $10,000 and/or imprisonment for not more than 5 years. H.R. 2540 would raise the maximum fine to $50,000 while maintaining the maximum 5 years imprisonment. It would make all such activity illegal regardless of the level at which the misrepresentation was made.

PRIVATIZING 7(a) LOAN GUARANTEES

SBA's Administrator would be directed to report to Congress by December 15, 1985, and identify any sources outside the Federal Government which could provide 7(a) loan guarantees. A corporation owned by the Federal Government would be one option evaluated in the report.

LIMITATION ON USE OF SBA LOANS

Financial assistance would be prohibited under the section 7(a) loan program if it would benefit any applicant which performs abortions, engages in abortion research, promotes or recommends abortion, or provides abortion training. In all events, promotion or training for abortion would not be financed. However, if an applicant performs abortions or promotes or recommends abortion only in cases where the life of the mother would be endangered if the fetus were carried to term, such activities would not preclude SBA 7(a) assistance.

The Administrator of the Small Business Administration would be instructed to impose user fees for certain services provided by the agency. The Committee, in adopting the amendment, noted its concern that individuals benefiting from many of the services provided by the agency are receiving those services for free. Although user fees are imposed for some very limited services, there are no fees charged for others. Moreover, with the huge budget deficit facing the nation, the Committee believes that small business owners and individuals using SBA services should pay some nominal fee for the services they receive.

The legislation grants authority to the Administrator to charge fees for services rendered. Specifically, the Administrator would be required to issue regulations which impose fees for services provided by the SBA. The Administrator is given some discretion as to the amount of the fee that may be imposed, but limitations on the Administrator's authority are provided. There are three areas where the Administrator must charge fees.

Publications

The agency makes numerous publications available to small businesses and other individuals interested in SBA material. Of the 190 publications available, 140 are provided at no charge.

The Committee requires the Administrator to impose a fee which at least recovers the cost of the publication. In no event, however, could the fee be more than $5 per publication.

Processing applications for loans

The Committee believes that an additional, one-time fee should be charged for processing loan applications. The Committee believes that the Administrator should have the discretion to set an appropriate fee, but in no case should the fee exceed $100.

In addition, the Committee believes that the fee should be refunded if no action is taken on the application within a reasonable time period. That time period should be no more than six weeks.

Determination of small business entitlement

The Small Business Act provides preferential treatment for certain small businesses in certain areas. The most obvious example is the "8(a)" program, which requires government agencies to set aside a certain percentage of government contracts for minority small businesses, which must receive an 8(a) designation.

The Committee believes that the SBA should charge no more than $100 for issuing this designation. If the designation is not provided for any reason, however, the fee would be refunded.

Study of fees for counseling services

The Committee notes with pleasure the tremendous success of the Small Business Development Center (SBDC) program. SBDC's provide counseling services to small businessmen and women in states that have the centers. In addition, the SCORE and ACE programs provide some counseling services.

The Committee expresses no opinion on the appropriateness of fees for users of SBDC's, and the SCORE and ACE programs. The Committee directs the Administrator to study the feasibility of imposing user fees for SBA-sponsored counseling services, including SBDC's, SCORE, and ACE. The report would be due within one year of enactment, and made available to the House and Senate Committees on Small Business and Appropriations.

Transfer of funds

Under the legislation, the Administrator is required to deposit the receipts from the fees in the general fund of the Treasury as "proprietary receipts" of the Small Business Administration. Thus, although the funds would go to the general fund—and thus have an impact on the size of the deficit—they are to be used for SBA programs and activities, subject to the annual appropriations process.

Effective dates

In general, the bill requires the Administrator to advise the House and Senate Small Business Committees and the House and Senate Appropriations Committees of his proposed fees and the services for which fees will be imposed within sixty days of enactment of the bill. In addition, the Administrator is required to advise the committees of his proposed timetable for imposing the fees.

After informing the Congress of his proposals, the Administrator is expected to issue regulations to formally implement the fees. The Committee anticipates that the user fees will be in effect no later than March 1, 1986.

BUDGET AUTHORITY

The bill authorizes the following appropriations for the next three Fiscal Years (1985 appropriated level is $700.25 million): 1986—$593.34 million; 1987—$627.34 million; and 1988—$634.34 million.

CONCLUSION

The administration's proposal to terminate the Small Business Administration and the overwhelming rejection of this proposal by the Congress have major implications for the future of small business in America: aid, counsel and assistance to small business will continue to be a priority for decision-makers at all levels of government.

Enactment of the Small Business Act of 1953 and establishment of the Small Business Administration were expressions of Congressional policy for the preservation and strengthening of personal initiative, private enterprise and free competiton. In addition to financial assistance to those unable to otherwise enter business Congress wanted to ensure that a fair proportion of Government contracts went to small concerns—not just to promote economic well-being, but to provide for the security of the Nation. To promote these policies Congress recognized that absolute need for an independent agency". . . not affiliated . . . or within any other agency or department of the Federal Government", and the Act so requires."

Over the past thirty years the Small Business Act and its numerous amendments have laid the groundwork for broadening small business ownership among groups that control little capital, among socially and economically disadvantaged individuals and for assisting victims of floods and other catastrophes. The Committee believes that retaining an independent SBA is an absolute obligation arising from Federal Government policies and actions. It is not simply a hangover from WW II, but a counter balance to Federal agencies' takeover of the free market that resulted from that war. Today's Federal fiscal and monetary policies dictate businesses access to capital and credit, and Federal pronouncements on tax, credit, procurement and regulatory policy dominate our economy.

Congress and the President must decide what priority to place on small business concerns. The chances of success in virtually all efforts to assist small business will increase commensurately with the priorities that are set. As a result of the current debate over SBA's role, hopefully, all branches of the government will become more familiar with small business and its contributions to the Nation.

Quite possibly, the time has come for major changes in the scope and significance of programs within the Small Business Administration. Agencies do experience the need for major changes in their strategic mission and, for SBA, the time could not be more appropriate than it is now. With guidance and support from Congress

and the President, the agency can build upon its solid foundation of service and greatly extend the scope and value of its programs. The SBA should concentrate on maximizing the number of successful small businesses and its Advocacy role in their behalf. The agency will also have to broaden its association with minorities, the business community, the academic community, and other agencies of government. The ultimate result should be comprehensive assistance to a far greater number of small enterprises. By engaging the cooperation of the private sector, the benefits could be even greater, because greater funding from the private sector against governmental encroachment; show vigorous, private sector support for the small business sector of the economy; provide for more support for small business than either the government or the private sector would be willing to provide, acting alone; and permit SBA to divert limited resources to areas critically in need of additional support.

The reauthorization and reaffirmation of SBA offers an opportunity to build a better future for small business, the agency itself, and America. Congress will continue to offer guidance about what to do, who should do it, and how to proceed. Most of the important issues are known. The time for studying small business has passed. The three-year authorizaton period this legislation provides is the time for action to maximize the number of successful small businesses.

Matters Required To Be Discussed Under House Rules

In compliance with clause 2(l)(2) of rule XI of the House of Representatives, the following statement is made relative to the vote on the motion to report H.R. 2540.

A majority of the Committee voted in person and was actually present and the motion was approved by a recorded vote of 38–0 with 2 voting present.

In compliance with clause 2(l)(3) of the rule XI of the Rules of the House of Representatives, the following statements are made:

With regard to subdivision (A), relating to oversight findings, the Committee finds, in keeping with clause 2(b)(1) of rule X, that this legislation is in full compliance with the provison of this rule of the House which states:

> In addition each such committee shall review and study any conditions or circumstances which may indicate the necessity or desirability of enacting new or additional legislation within the jurisdiction of that committee. * * *

With regard to subdivision (B), relating to the statement required by section 308(a) of the Congressional Budget Act of 1974, the following statement is made relative to the legislation:

Section 3(a)(2) of the Congressional Budget Act defines the term "tax expenditures" as those revenue losses attributable to provisions of the Federal tax laws which allows a special exclusion exemption, or deduction, from gross income or which provide a special credit, a preferential tax rate of tax, or a deferral of tax liability.

None of the provisions of H.R. 2540 deals with taxation and thus, in your Committee's opinion, this bill does not provide new or increased tax expenditures.

Section 3(a)(2) of the Congressional Budget Act defines the term "budget authority" as authority provided by law to enter into obligations which will result in immediate or future outlays involving Government funds.

Under this definition, it is the final action of Congress that authorizes an agency to enter into obligations which constitutes new budget authority. In those cases which entail (1) an authorization for an agency to undertake a program; (2) an authorization for appropriation of funds to permit that agency to enter into obligations; and (3) an actual appropriation of such funds, it would be only the final action of Congress in appropriating funds which constitutes the budget authority.

None of the provisions of H.R. 2540 appropriates funds and thus, in your Committee's opinion, the bill does not provide new budget authority. Accordingly, no comparison of budget authority, outlays or tax expenditures or 5-year projections have been made.

With regard to subdivisions (C) and (D), the cost estimate of the Director of the Congressional Budget Office relative to H.R. 2540 follows:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, July 22, 1985.

Hon. PARREN J. MITCHELL,
Chairman, Committee on Small Business,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate for H.R. 2540, a bill to authorize the appropriation of funds to the Small Business Administration, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,
Sincerely,

RUDOLPH G. PENNER.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: H.R. 2540.

2. Bill title: A bill to authorize the appropriation of funds to the Small Business Administration, and for other purposes.

3. Bill status: As amended and ordered reported by the House Committee on Small Business, July 10, 1985.

4. Bill purpose: This bill would establish program levels for fiscal years 1986 through 1988 for the business programs administered by the Small Business Administration (SBA). It would also authorize appropriations for administering and funding these activities, and establish new fees for publications, processing loans and certifying small businesses.

Beginning in 1986, the bill would increase the guarantee fee for most SBA loans from 1 percent to 3 percent. It would prohibit the

off-budget Federal Financing Bank (FFB) from acquiring debentures guaranteed by SBA and issued by small business investment companies. It would also establish a one-year pilot program involving the sale to private investors of up to $100 million in Section 503 debentures guaranteed by SBA.

H.R. 2540 would authorize the appropriation of such sums as may be necessary to operate the disaster loan program for fiscal years 1986 through 1988. Beginning in fiscal year 1986, it would also eliminate the non-physical loan program and discontinue physical disaster lending to agricultural enterprises. The $500 million cap on physical disaster loan obligations in fiscal year 1986 is also removed.

5. Estimated cost to the Federal Government: The following table summarizes the total on- and off-budget impact of this bill, relative to spending levels if no legislation were enacted.

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Total on- and off-budget:					
Authorization level:					
Specified	593	627	634		
Estimated		222	269	510	227
Total authorization	593	849	903	510	227
Estimated outlays	191	788	1,119	660	179

In addition, the bill would establish a new proprietary receipt account and allow SBA to collect fees for publications, loan processing, and other purposes. These fees, estimated to total $3–4 million annually, could be used (subject to appropriations) to offset the costs of these functions.

This bill would also authorize SBA business loan guarantees of $3.1 billion in each of the fiscal years 1986 through 1988. These guarantees represent contingent liabilities of the federal government.

The basis of estimate provides further detail on the budget impact of this bill, and compares spending levels under this bill with the CBO baseline projections.

For many government activities, the costs and outlays are identical. For loan programs, however, the costs differ from outlays, and include administrative expenses and loan defaults, offset by fees and interest income. The costs of this bill are summarized separately below:

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Estimated costs	224	279	407	321	340

The elimination of SBA farm disaster lending is anticipated to increase the demand for emergency disaster loans provided by the

Agricultural Credit Insurance Fund (ACIF) of the Farmers Home Administration (FmHA). For fiscal years 1986 through 1990, total additional demand for ACIF loans is estimated to be about $2.1 billion, at an additional estimated cost of $213 million over this period. Over the same period, additional on- and off-budget budget authority and outlays are estimated to be about $1.9 billion and $1.8 billion, respectively. These figures are not included in the budget impact and cost tables above.

Basis of estimate: This bill would authorize the following program levels for the loan programs administered by the SBA:

PROGRAM LEVELS

[By fiscal years, in millions of dollars]

Programs	Direct loans			Guaranteed loans		
	1986	1987	1988	1986	1987	1988
7(a) general business				2,332	2,332	2,332
Handicapped	15	15	15	5	5	5
Economic opportunity	45	45	45	60	60	60
Energy				15	15	15
Development company				450	450	450
Investment company	41	41	41	250	250	250
Veterans	20	20	20			
Total—business loans	121	121	121	3,112	3,112	3,112
Surety bond				900	900	900
Pollution control				50	50	50
Disaster	[1] 381	[2] 398	[2] 414			

[1] Estimated fiscal year 1986 program level under current law is $600 million.
[2] Estimate based upon historical data.

The authorization levels shown in this estimate include amounts specifically authorized in the bill, estimated payments for loan guarantee defaults, estimated disaster loan appropriations, and estimated off-budget FFB loans made under development company loan guarantees. The specific authorizations are summarized in the following table.

AUTHORIZATION LEVELS

[By fiscal years, in millions of dollars]

	1986	1987	1988
Salaries and expenses [1]	205	205	205
Business loans and investments	376	410	417
Pollution control [2]			
Surety bond guarantee	12	12	12
Total	593	627	634

[1] The bill also authorizes the transfer of unobligated funds from the disaster loan fund to the salary and expense account to administer the disaster loan program, and for other purposes. CBO estimates that $70 million (the 1985 appropriated level) would also be transferred in each of the fiscal years 1986 through 1988. The transfer of unobligated balances does not affect budget authority but does increase outlays in each of the fiscal years 1986 through 1990.
[2] No appropriations are authorized for this program; application fees and other income have historically been sufficient to meet the expenses of the program.

For purposes of this estimate, it is assumed that the entire amounts authorized will be appropriated prior to the beginning of each fiscal year.

SBA makes an annual interest payment to the Treasury based on its outstanding disbursements for direct loans. The payment to the Treasury reflects disbursements from the business and disaster loan programs in 1986, 1987, and 1988. Because the interest payment represents an outlay to SBA but a receipt to the Treasury, it has no net budget impact. In addition, interest is paid to the Treasury on the direct loans made by the FFB. The figures in the cost estimate tables for function 900 are the estimated Treasury receipts from both the SBA and the FFB related to loans authorized by this bill.

Business programs

Outlays for SBA direct and immediate participation loans are calculated by assuming that these loans are disbursed over a two-year period based on SBA's repayment historical disbursement rates. The repayment is derived from amortization tables, and SBA's historical repayment pattern for these programs. Because the bill would increase the guarantee fee from 1 percent to 3 percent for all guaranteed business loans, except those provided to development companies, it is estimated that SBA receipts would increase relative to current law by approximately $19 million in 1986, $39 million in 1987, $39 million in 1988, and $19 million in 1989, assuming the loan guarantee levels authorized in the bill.

The estimated on-budget authorization level for function 370 in 1989 and 1990 ($272 million and $315 million, respectively) reflects estimated net additional resources required to fund remaining expenses, primarily defaults on loan guarantees, resulting from the authorizations provided in the bill. SBA is assumed to purchase guarantee loans that have defaulted in the first through sixth years after disbursement by the bank, at rates consistent with historical experience.

Outlays for salaries and expenses and the surety bond progam are assumed to follow historical patterns. No outlays are estimated for the pollution control program, assuming that new fee collections would offset program expenses, primarily bond defaults.

The bill would authorize $350 million in fiscal year 1986 and $450 million in each of the fiscal years 1987 and 1988 for development company loan guarantees that are financed by the FFB. These FFB loans are made to small business development companies to provide assistance for small businesses. The off-budget authorization levels in the table below reflect gross disbursements of such loans, while the estimated outlays reflect estimated disbursements less repayments.

A summary of the budget impact of the business programs authorized by this bill is shown in the following table.

BUSINESS PROGRAMS

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
On-budget:					
Function 370:					
Authorization level:					
Specified	593	627	634	.....	.....

BUSINESS PROGRAMS—Continued

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Estimated				272	315
Total authorization	593	627	634	272	315
Estimated outlays	320	433	557	364	315
Function 900:					
Treasury interest receipts		−4	−17	−33	−51
Off-budget:					
Function 370:					
Estimated authorization level		226	291	291	
Estimated outlays		220	288	286	−6
Total on- and off-budget:					
Authorization level:					
Specified	593	627	634		
Estimated		222	274	530	264
Total authorization	593	849	908	530	264
Estimated outlays	320	649	828	617	258

Disaster loans

The SBA disaster loan fund provides funding for physical and non-physical disasters. Under current law, new physical disaster loan obligations are capped at $500 million for fiscal year 1986, while annual new non-physical disaster loan obligations are capped at $100 million. The baseline for this program in subsequent years is estimated using loan demand for an average disaster year, which is calculated using 15 years of historical data adjusted for inflation.

The following table shows the estimated budget impact of the disaster loan provisions of this bill, including Treasury interest receipts. These figures have been estimated relative to a program level in which no new disaster loan obligations are authorized after fiscal year 1986. Under H.R. 2540, only physical disaster lending would be authorized; non-physical disaster lending, authorized through fiscal year 1986 under current law, would be eliminated. Physical disaster loans to farmers would also be eliminated. The loan levels for fiscal years 1986 through 1988 are estimated to be $381 million, $398 million, and $414 million respectively. It is projected that no appropriations would be required to meet these loan levels because sufficient unobligated balances would be available to the fund.

SBA DISASTER PROGRAM

[By fiscal years, in millions of dollars]

	1986	1987	1988	1989	1990
Disaster loans:					
Estimated authorization level					
Estimated outlays	−129	139	296	63	−42
Treasury interest receipts			−5	−20	−37

The above table does not reflect offsetting effects in function 350. The exclusion of farmers from the SBA disaster loan program is expected to result in proportionally greater demand for the emergency disaster loan program of the Farmers Home Administration. The complete budget impact of this legislation includes the effect of this additional demand at FmHA. That effect is incorporated in the table below, which compares H.R. 2540 with the CBO baseline.

Summary

The following table shows the estimated increase or decrease in budget authority and outlays relative to the CBO baseline for the programs affected by this legislation. The differences from the baseline include outlays resulting from prior years' obligations and Treasury receipts related to SBA or FmHA loans. The figures include both on- and off-budget accounts.

SAVINGS (—) OR COST OF H.R. 2540, RELATIVE TO THE CBO BASELINE

[By fiscal years, in millions of dollars]

	1986		1987		1988	
	Budget authority	Outlays	Budget authority	Outlays	Budget authority	Outlays
SBA business programs:						
On-budget	—185	—130	—168	—200	—175	—222
Off-budget	—216	—216	—303	—276	—260	—199
Farmers Home Administration:						
On-budget	7		23	5	31	14
Off-budget	160	160	432	432	398	398
SBA disaster program		—129		—421	—460	—457
Interest paid to Treasury			6	6	5	5
Bill total	—234	—315	—10	—454	—461	—461

6. Estimated cost to State and local governments: This bill would authorize SBA to issue guarantees of $450 million in each of the fiscal years 1986 through 1988 on debentures issued by qualified state or local development companies. These SBA guaranteed debentures are currently sold to the FFB for financing up to 50 percent of the total project cost. This bill would reduce the level of FFB financing by $100 million in 1986.

7. Estimate comparison: None.

8. Previous CBO estimate: On April 2, 1985, CBO prepared a cost estimate for S. 408, as ordered reported, with proposed technical amendments, by the Senate Committee on Small Business, March 26, 1985. S. 408 authorized the SBA business and disaster programs through 1988. Outlay savings from S. 408 relative to the baseline were estimated to be $233 million in 1986, $314 million in 1987, and $304 million in 1988.

9. Estimate prepared by: Mary Maginniss, Paul DiNardo and Roger Hitchner.

10. Estimate approved by: C.G. Nuckols (for James L. Blum, Assistant Director for Budget Analysis).

No oversight findings or recommendations have been made by the Committee on Government Operations with respect to the subject matter contained in H.R. 2540.

In compliance with clause 2(l)(4), the Committee concludes that the provisions of this legislation in and of themselves will have no inflationary impact on prices and costs in the operation of the national economy.

In compliance with clause 7, rule XIII of the House of Representatives, the Committee makes the following statement:

The costs attributable to this bill for the current fiscal year and for fiscal years 1986-90 are as follows: This bill authorizes the appropriation of some $1.85 billion in fiscal years 1986 through 1988, primarily to pay salaries and expenses and to drive loan guarantee programs which permit small business to provide employment to millions of Americans. Thus, when the impact upon jobs is considered, this bill will actually provide a positive cash flow and does not cost the Government money.

No cost estimate was submitted by any Government agency on H.R. 2540 to your Committee.

In your Committee's opinion, the above statements fully comply with the Rules of the House of Representatives.

Section-by-Section Analysis

Section 1. *1986 Program Levels and Authorizations.*—Section 1 amends section 20 of the Small Business Act and provides, in a new subsection (u), paragraphs (1) through (5), the following maximum program levels for Fiscal Year 1986:

Proposed paragraphs (1) and (2) authorize a total of $80 million in direct and immediate participation loans and $2.862 billion in deferred participation (guaranteed) loans and guarantees of debentures, earmarked as follows:

(a) Handicapped assistance loans—$15 million in direct loans and $5 million in guaranteed loans;

(b) Economic opportunity loans—$45 million in direct loans and $60 million in guaranteed loans;

(c) Solar and other energy conservation loans—$15 million in guaranteed loans;

(d) Vietnam and disabled veterans' loans—$20 million in direct loans; and

(e) Development company assistance—$450 million in guaranteed loans and guarantees of debentures;

Proposes paragraph (3) authorizes small business investment company assistance of $41 million in direct purchases of debentures and preferred securities and $250 million in guarantees of debentures;

Proposed paragraph (4) authorizes surety bond guarantees of $900 million; and

Proposed paragraph (5) authorizes pollution control bond guarantees of $50 million.

Section 1 further provides in a proposed subsection (v) of section 20 of the Act, a total authorization for Fiscal Year 1986 of $593.34 million.

Of the total authorization, $376 million is for the direct and immediate participation loan programs, for guarantees of loans and debentures and for the SBIC programs; $12 million is for the surety

bond guarantees program; and $205.34 million is for salaries and expenses of the Administration.

Proposed subsection (v) also authorizes the appropriation of necessary funds to operate the disaster loan program authorized in section 7(b) (1) and (2) of the Act.

1987 Program Levels and Authorizations.—Section 1 also amends section 20 of the Small Business Act and provides, in a new subsection (w), paragraphs (1) through (5), the following maximum program levels for Fiscal Year 1987:

Proposed paragraphs (1) and (2) authorize a total of $80 million in direct and immediate participation loans and $2.862 billion in deferred participation (guaranteed) loans and guarantees of debentures, earmarked as follows:

(a) Handicapped assistance loans—$15 million in direct loans and $5 million in guaranteed loans;

(b) Economic opportunity loans—$45 million in direct loans and $60 million in guaranteed loans;

(c) Solar and other energy conservation loans—$15 million in guaranteed loans;

(d) Vietnam and disabled veterans' loans—$20 million in direct loans; and

(e) Development company assistance—$450 million in guaranteed loans and guarantees of debentures;

Proposed paragraph (3) authorizes small business investment company assistance of $41 million in direct purchases of debentures and preferred securities and $250 million in guarantees of debentures;

Proposed paragraph (4) authorizes surety bond guarantees of $900 million; and

Proposed paragraph (5) authorizes pollution control bond guarantees of $50 million.

Section 1 further provides in a proposed subsection (x) of section 20 of the Act, a total authorization for Fiscal Year 1987 of $627.34 million.

Of the total authorization, $410 million is for the direct and immediate participation loan programs, for guarantees of loans and debentures and for the SBIC programs; $12 million is for the surety bond guarantees program; and $205.34 million is for salaries and expenses of the Administration.

Proposed subsection (x) also authorizes the appropriation of necessary funds to operate the disaster loan programs authorized in section 7(b)(1) and (2) of the Act.

1988 Program Levels and Authorizations.—Section 1 also amends section 20 of the Small Business Act and provides, in a new subsection (y), paragraphs (1) through (5), the following maximum program levels for Fiscal Year 1988:

Proposed paragraphs (1) and (2) authorize a total of $80 million in direct and immediate participation loans and $2.862 billion in deferred participation (guaranteed) loans and guarantees of debentures, earmarked as follows:

(a) Handicapped assistance loans—$15 million in direct loans and $5 million in guaranteed loans;

(b) Economic opportunity loans—$45 million in direct loans and $60 million in guaranteed loans;

(c) Solar and other energy conservation loans—$15 million in guaranteed loans;

(d) Vietnam and disabled veterans' loans—$20 million in direct loans; and

(e) Development company assistance—$450 million in guaranteed loans and guarantees of debentures;

Proposed paragraph (3) authorizes small business investment company assistance of $41 million in direct purchases of debentures and preferred securities and $250 million in guarantees of debentures;

Proposed paragraph (4) authorizes surety bond guarantees of $900 million; and

Proposed paragraph (5) authorizes pollution control bond guarantees of $50 million.

Section 1 further provides in a proposed subsection (z) of section 20 of the Act, a total authorization for Fiscal Year 1988 of $634.34 million.

Of the total authorization, $417 million is for the direct and immediate participation loan programs, for guarantees of loans and debentures and for the SBIC programs; $12 million is for the surety bond guarantees program; and $205.34 million is for salaries and expenses of the Administration.

Proposed subsection (z) also authorizes the appropriation of necessary funds to operate the disaster loan programs authorized in section 7(b)(1) and (2) of the Act.

Section 2(a) strikes the fiscal year 1986 authorization of $500 million for the section 7(b)(1) and 7(b)(2) disaster loan programs and the authorization for $100 million for the 7(b)(3) and 7(b)(4) nonphysical disaster loan programs in section 20(t) of the Act.

Section 2(b) is a conforming amendment for purposes of 2(a).

Section 3(a) proposes a new subsection (n) of section 15 of the Small Business Act and provides a minimum population criterion of 25,000 when population criteria are used in determinations of Labor Surplus Areas for purposes of this section.

Section 3(b) makes the proposed amendment in 3(a) effective 90 days after the bill becomes law.

Section 4(a) proposes a new section 320 to the Small Business Investment Act of 1958 to prohibit effective September 30, 1985 the Federal Financing Bank to purchase all or any part of—

(1) SBIC debentures;

(2) any interest in SBIC debentures; or

(3) any obligation secured by an SBIC debenture or a share in an SBIC debenture.

Section 4(b) amends the table of contents of the 1958 Act to include the proposed section 320.

Section 5(a) adds a new section 321 to Title III of the Small Business Investment Act of 1958 to provide authorization for the sale of SBIC government guaranteed debentures under the same terms and conditions established for the SBA's secondary market for the guaranteed portion of 7(a) loans under section 5(g) of the Small Business Act.

Section 5(b) amends the table of contents of the 1958 Act to include section 321.

Section 6(a) amends section 7(b) of the Small Business Act as follows:

(1) by prohibiting SBA from making disaster loans to agricultural enterprises pursuant to subsection (b) of section 7;

(2) by making a technical and conforming change; and

(3) and (4) by abolishing the 7(b)(3) and 7(b)(4) nonphysical disaster loan programs.

Section 6(b) is a technical amendment which removes the undesignated paragraph provisions following section 7(c)(4) which have been superceded by section 7(c)(5).

Section 6(c) strikes from section 18(a) of the Small Business Act the Avoidance of Duplication provisions. These provisions were amendments added thereto by P.L. 94-305, P.L. 96-302, and P.L. 98-270 which specified certain agricultural enterprise eligibility provisions for 7(b)(1) assistance prior to October 1, 1986.

Section 7 adds a new paragraph 16 to section 7(a) of the Small Business Act to impose on the small business borrower a 3 percent fee on any guaranteed loan with a term over one year.

Section 8 amends Title V of the Small Business Investment Act of 1958 by adding a new Section 504.

Proposed 504(a) establishes a Pilot Program for public or private sale of section 503 debentures of up to $100 million in FY 1986 only. A pilot secondary market program is also established as under the 7(a) guaranteed loan program secondary market provisions of section 5(g) of the Small Business Act.

Proposed 504(b) prohibits the Federal Financing Bank's purchase of:

(1) any 503 debenture sold under the pilot program in section 504(a),

(2) any share of any obligation described in paragraph (1) above, or

(3) any instrument secured by a 503 debenture sold in the pilot program.

Proposed 504(c) requires that SBA report on results of the pilot program either 90 days after all pilot program debentures are sold or October 1, 1986, if this is the earlier of the two dates.

Section 9 amends Section 16 of the Small Business Act by adding a new subsection (d), paragraphs (1) through (4).

Proposed subsection (d) establishes a penalty of a fine of up to $50,000 and imprisonment for up to 5 years, or both, for anyone making a knowing misrepresentation of small business status or disadvantage on:

(1) prime contracts under section 9 or 15 of the Small Business Act;

(2) subcontracts under section 8(a) of the Small Business Act;

(3) subcontracts included in subcontracting plans under section 8(d) of the Small Business Act; or

(4) any contract awarded under a Federal law that uses criteria of section 8(d) of the Small Business Act for a definition of program eligibility.

Section 10 requires SBA's Administrator to report by December 15, 1985, to the Small Business Committees of the Congress on the options available for establishing a non-Federal Government 7(a) guaranteed loan program. The creation of a Federal Government

owned corporation to make such guarantees shall be evaluated as part of the report.

Section 11 amends SBA's section 7(a) business loan authority by adding a new paragraph (17) to such subsection. The proposed paragraph prohibits loans to any applicant who performs abortions, engages in abortion research, promotes abortions or trains any individual to perform abortions, except it allows financing of applicants involved in performing, promoting or recommending abortions in cases where the life of the mother would be endangered if the fetus were carried to term.

Section 12(a) adds a new subsection (i) to section 5 of the Small Business Act:

Proposed paragraph (1) of subsection (i) requires the Administrator of SBA to establish user fee regulations for the following services:

(A) SBA publications,

(B) loan applications,

(C) determinations of eligibility of small concerns for assistance or preferential treatment as a small business concern or any type of such concern.

Proposed paragraph (2) sets limits on fees as follows:

(A) Fees for publications to be the lesser of $5 or cost.

(B) Application processing fees are not to exceed $100.

(C) Eligibility determination fees are not to exceed $100.

Proposed paragraph (3) of subsection (i) requires fees under this subsection to be used to offset costs to the extent provided by appropriation Acts.

Section 12(b) requires SBA's Administrator to report within one year after this bill becomes law on the feasibility of:

(1) charging for management assistance or other counseling; and

(2) charging a participating financial institution an annual fee of between one quarter of one percent and one percent of the outstanding balance of all 7(a) loan guarantees to that institution; and based on the revenue possibilities, providing a loss reserve or for the cost of administration.

Section 12(c) requires within 60 days of enactment of H.R. 2540 an SBA report detailing any fees contemplated under the proposed section 5(i).

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

SMALL BUSINESS ACT

* * * * * * *

SEC. 5. (a) * * *

* * * * * * *

(i)(1) Notwithstanding any other provision of law, the Administrator shall prescribe regulations which impose fees for services provided by the Administration. Such fees shall be in such amounts (subject to the limitation in paragraph (2)) as the Administrator determines to be appropriate, and apply only to the following services—

(A) publications provided by the Administration,

(B) processing applications for guaranteed or other loans, and

(C) determining whether any business is a small business concern (or any type of such concern) for purposes of enabling such business to be eligible for any assistance or preferential treatment under this or any other Act.

(2) With respect to any fee imposed under this subsection—

(A) In the case of fees imposed for publications, such fees shall not exceed the lesser of 45 per publication, or the actual publication costs of said publication.

(B) In the case of fees imposed for processing applications for loans, such fee shall not exceed $100.

(C) In the case of fees imposed for designation as a small business concern (or any type of such concern), such fee shall not exceed $100 but shall be refunded to the applicant if such designation is not made.

(3) Amounts collected pursuant to this subsection shall be deposited in the general fund of the Treasury as proprietary receipts of the Small Business Administration to be retained and used by such Administration to cover the costs of such services and publications to the extent and in the amounts as provided in advance in appropriations Acts. There shall be an annual verification by the Administrator of amounts collected and expended for services and publications as provided herein.

* * * * * * *

SEC. 7. (a) The Administration is empowered to the extent and in such amounts as provided in advance in appropriation Acts to make loans for plant acqusition, construction, conversion, or expansion, including the acquisition of land, and material, supplies, equipment, and working capital, and to make loans to any qualified small business concern, including those owned by qualified Indian tribes, for purposes of this Act. Such financings may be made either directly or in cooperation with banks or other financial institutions through agreements to participate on an immediate or deferred (guaranteed) basis. These powers shall be subject, however, to the following restrictions, limitations, and provisions:

(1) * * *

* * * * * * *

(16) The Administration shall collect a guarantee fee equal to three percent of the amount of the deferred participation share of any loan under this subsection other than a loan repayable in one year or less or a loan under paragraph (13). The fee shall be payable by the participating lending institution and may be charged to the borrower.

(17)(A) No financial assistance shall be available under this subsection which benefits any applicant—

(i) which performs abortion,

(ii) which engages in research which relates, in whole or in part, to methods of, or the performance of, abortion,

(iii) which promotes or recommends abortion, or

(iv) which trains any individual to perform abortion.

(B) Subparagraph (A) shall not apply to any activity described in clause (i) or (iii) of subparagraph (A) if all of the abortions performed, promoted, and recommended in such activity are in cases where the life of the mother would be endangered if the fetus were carried to term.

(b) [The] *Except as to agricultural enterprises as defined in section 18(b)(1) of this Act, the* Administration also is empowered to the extent and in such amounts as provided in advance in appropriation Acts—

(1)(A) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred (guaranteed) basis) as the Administration may determine to be necessary or appropriate to repair, rehabilitate or replace property, real or personal, damaged or destroyed by or as a result of floods, riots or civil disorders, or other catastrophes: *Provided,* That such damage or destruction is not compensated for by insurance or otherwise;

(B) to refinance any mortgage or other lien against a totally destroyed or substantially damaged home or business concern: *Provided,* That no loan or guarantee shall be extended unless the Administration finds that (i) the applicant is not able to obtain credit elsewhere; (ii) such property is to be repaired, rehabilitated, or replaced; (iii) the amount refinanced shall not exceed the amount of physical loss sustained; and (iv) such amount shall be reduced to the extent such mortgage or lien is satisfied by insurance or otherwise; *and*

(2) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred (guaranteed) basis) as the Administration may determine to be necessary or appropriate to any small business concern or small agricultural cooperative located in an area affected by a disaster, if the Administration determines that the concern or the cooperative has suffered a substantial economic injury as a result of such disaster and if such disaster constitutes—

(A) a major disaster, as determined by the President under the Act entitled "An Act to authorize Federal assistance to States and local governments in major disasters, and for other purposes", approved September 30, 1950, as amended (42 U.S.C. 1855–1855g); or

(B) a natural disaster, as determined by the Secretary of Agriculture pursuant to the Consolidated Farmers Home Administration Act of 1961 (7 U.S.C. 1961); or

(C) a disaster, as determined by the Administrator of the Small Business Administration; or

(D) if no disaster declaration has been issued pursuant to subparagraph (A), (B), or (C), the Governor of a State in which a disaster has occurred may certify to the Small Business Administration that small business concerns or

small agricultural cooperatives (1) have suffered economic injury as a result of such disaster, and (2) are in need of financial assistance which is not available on reasonable terms in the disaster stricken area. Upon receipt of such certification, the Administration may then make such loans as would have been available under this paragraph if a disaster declaration had been issued.

Provided, That no loan or guarantee shall be extended pursuant to this paragraph (2) unless the Administration finds that the applicant is not able to obtain credit elsewhere[;].

[(3) to make such loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary or appropriate to assist any small business concern in effecting continuation of, additions to, alterations in or reestablishment in the same or a new location of its plant, facilities, or methods of operation made necessary by direct action of the Federal Government or as a consequence of Federal Government action or to meet requirements or restrictions imposed on such concern under any Federal law heretofore or hereafter enacted or any State law enacted in conformity therewith, or any regulation or order of a duly authorized Federal, State, regional, or local agency issued in conformity with such Federal law, if the Administration determines that such concern is likely to suffer substantial economic injury or be unable to market a product without assistance under this paragraph: *Provided,* That the maximum loan made to any small business concern under this paragraph shall not exceed $500,000 and the amount thereof shall be based solely on a determination made on each application: *Provided further,* That no loan or guarantee shall be extended unless the Administration finds that the applicant is unable to obtain credit elsewhere. For the purposes of this paragraph, the impact of the 1983 Payment-in-Kind Land Diversion program, or any successor Payment-in-Kind program with a similar impact on the small business community, shall be deemed to be a consequence of Federal Government action; and

[(4) To make such disaster loans (either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred basis) as the Administration may determine to be necessary to assist, or refinance all or part of the existing indebtedness (specifically including any direct loans under section 7(a) of this Act which were made to small businesses affected by currency fluctuations and exchange freezes), of any small business concern located in an area of economic dislocation that is the result of the drastic fluctuation in the value of the currency of a country contiguous to the United States and adjustments in the regulation of its monetary system if such concern is unable to obtain credit elsewhere. The Governor of a State may certify to the Administration (A) that small business concerns within the State have suffered substantial economic injury as a result of such economic dislocation, and (B) that such concerns are in need of financial assistance which is not available on reasona-

ble terms. Such economic dislocations must be of such magnitude that without the benefit of disaster loans provided hereunder a significant number of otherwise financially sound small businesses in the impacted regions or business sectors would either become insolvent or be unable to return quickly to their former level of operation. No disaster loan made hereunder shall exceed $100,000, nor shall the proceeds thereof be used to reduce the exposure of any other lender. The Administration may permit deferral of payment of principal and interest for one year on loans made hereunder.]

* * * * * * *

(c)(1) * * *

* * * * * * *

(4) Notwithstanding the provisions of any other law, the interest rate on the Federal share of any loan made under subsection (b) shall be—

(A) * * *

* * * * * * *

[Such loans, subject to the reductions required by subparagraphs (A) and (B) of paragraph (1), shall be in amounts equal to 100 percent of loss if the applicant is a homeowner and 85 percent of loss if the applicant is a business or otherwise. The interest rates for loans made under paragraphs (1) and (2), as determined pursuant to this paragraph (4) shall be the rate of interest which is in effect on the date the disaster commenced: *Provided,* That no loan under paragraphs (1) and (2) shall be made, either directly or in cooperation with banks or other lending institutions through agreements to participate on an immediate or deferred (guaranteed) basis, if the total amount outstanding and committed to the borrower under this subsection would exceed $500,000 for each disaster unless an applicant constitutes a major source of employment in an area suffering a disaster, in which case the Administration, in its descretion, may waive the $500,000 limitation.]

* * * * * * *

SEC. 15. (a) * * *

* * * * * * *

(n) For purposes of this section, the determination of labor surplus areas shall be made on the basis of the criteria in effect at the time of the determination except that any minimum population criteria shall not exceed twenty-five thousand. Such determination, as modified by the preceding sentence, shall be made by the Secretary of Labor.

SEC. 16. (a) * * *

* * * * * * *

(d) Whoever makes any statement knowing it to be false, or whoever knowingly makes or uses any false document, writing or entry, for the purpose of misrepresenting the status of any concern or person as a "small business concern" or "small business concern owned and controlled by socially and economically disadvantaged individuals", in order to obtain for oneself or another any—

(1) prime contract to be awarded pursuant to sections 9 or 15;
(2) subcontract to be awarded pursuant to section 8(a);
(3) subcontract that is to be included as part or all of a goal contained in a subcontracting plan required pursuant to section 8(d); or
(4) prime or subcontract to be awarded as a result or in furtherance of any other provision of Federal law that specifically references section 8(d) for a definition of program eligibility,
shall be punished by a fine of not more than $50,000 or by imprisonment for not more than five years, or both.

* * * * * * *

SEC. 18. (a) The Administration shall not duplicate the work or activity of any other department or agency of the Federal Government, [except to those enterprises engaged in the production of food and fiber, ranching, and raising of livestock, aquaculture, and all other farming and agricultural related industries: *Provided,* That prior to October 1, 1987, an agricultural enterprise shall not be eligible for loan assistance under paragraph (1) of section 7(b) to repair or replace property other than residences and/or personal property unless it is declined for, or would be declined for, emergency loan assistance at substantially similar interest rates from the Farmers Home Administration under subchapter III of the Consolidated Farm and Rural Development Act,] and nothing contained in this Act shall be construed to authorize any such duplication unless such work or activity is expressly provided for in this Act. If loan applications are being refused or loans denied by such other department or agency responsible for such work or activity due to administrative withholding from obligation or withholding from apportionment, or due to administratively declared moratorium, then, for purposes of this section, no duplication shall be deemed to have occurred.

* * * * * * *

SEC. 20. (a) * * *

* * * * * * *

(t) For [each of fiscal years 1985 and 1986,] *1985* for the programs authorized by sections 7(b)(1) and 7(b)(2) the Administration is authorized to make $500,000,000 in direct loans and [for each of such years] for the programs authorized by sections 7(b)(3) and (b)(4) the Administration also is authorized to make $100,000,000 in direct loans.

* * * * * * *

(u) The following program levels are authorized for fiscal year 1986—

(1) for the programs authorized by section 7(a) of this Act, the Administration is authorized to make $80,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $15,000,000 in loans as provided in paragraph (10), $45,000,000 in loans as provided in paragraph (11), and $20,000,000 in loans to disabled veterans and Vietnam era veterans as defined in section 1841, title 38, United

States Code, under the general terms and conditions of title III of Public Law 97-72;

(2) for the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $2,862,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as provided in paragraph (11), $15,000,000 in loans as provided in paragraph (12), $450,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503;

(3) for the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $41,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures;

(4) for the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $900,000,000; and

(5) for the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $50,000,000.

(v) There are authorized to be appropriated to the Administration for fiscal year 1986, $593,340,000. Of such sum, $376,000,000 shall be available for the purpose of carrying out the programs referred to in subsection (u), paragraphs (1) through (3); $12,000,000 shall be available for the purposes of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $205,340,000 shall be available for salaries and expenses of the Administration. There also are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

(w) The following program levels are authorized for fiscal year 1987—

(1) for the programs authorized by section 7(a) of this Act, the Administration is authorized to make $80,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $15,000,000 in loans as provided in paragraph (10), $45,000,000 in loans as provided in paragraph (11), and $20,000,000 in loans to disabled veterans and Vietnam era veterans as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72;

(2) for the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $2,862,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as provided in paragraph (11), $15,000,000 in loans as provided in

paragraph (12), $450,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503;

(3) for the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $41,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures;

(4) for the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $900,000,000; and

(5) for the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $50,000,000.

(x) There are authorized to be appropriated to the Administration for fiscal year 1987, $627,340,000. Of such sum, $410,000,000 shall be available for the purpose of carrying out the programs referred to in subsection (w), paragraphs (1) through (3); $12,000,000 shall be available for the purposes of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $205,340,000 shall be available for salaries and expenses of the Administration. There also are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

(y) The following program levels are authorized for fiscal year 1988—

(1) for the programs authorized by section 7(a) of this Act, the Administration is authorized to make $80,000,000 in direct and immediate participation loans; and of such sum, the Administration is authorized to make $15,000,000 in loans as provided in paragraph (10), $45,000,000 in loans as provided in paragraph (11), and $20,000,000 in loans to disabled veterans and Vietnam era veterans as defined in section 1841, title 38, United States Code, under the general terms and conditions of title III of Public Law 97-72;

(2) for the programs authorized by section 7(a) of this Act and section 503 of the Small Business Investment Act of 1958, the Administration is authorized to make $2,862,000,000 in deferred participation loans and guarantees of debentures; and of such sum, the Administration is authorized to make $5,000,000 in loans as provided in paragraph (10), $60,000,000 in loans as provided in paragraph (11), $15,000,000 in loans as provided in paragraph (12), $450,000,000 in loans as provided in paragraph (13) and guarantees of debentures as provided in section 503;

(3) for the programs authorized by title III of the Small Business Investment Act of 1958, the Administration is authorized to make $41,000,000 in direct purchases of debentures and preferred securities and to make $250,000,000 in guarantees of debentures;

(4) for the programs authorized by part B of title IV of the Small Business Investment Act of 1958, the Administration is

authorized to enter into guarantees not to exceed $900,000,000; and

(5) for the programs authorized in sections 404 and 405 of the Small Business Investment Act of 1958, the Administration is authorized to enter into guarantees not to exceed $50,000,000.

(z) There are authorized to be appropriated to the Administration for fiscal year 1988, $634,340,000. Of such sum, $417,000,000 shall be available for the purpose of carrying out the programs referred to in subsection (y), paragraphs (1) through (3); $12,000,000 shall be available for the purposes of carrying out the provisions of section 412 of the Small Business Investment Act of 1958; and $205,340,000 shall be available for salaries and expenses of the Administration. There also are hereby authorized to be appropriated such sums as may be necessary and appropriate for the carrying out of the provisions and purposes, including administrative expenses, of sections 7(b)(1) and 7(b)(2) of this Act; and there are authorized to be transferred from the disaster loan revolving funds such sums as may be necessary and appropriate for such administrative expenses.

* * * * * * *

SMALL BUSINESS INVESTMENT ACT OF 1958

Sec. 101. SHORT TITLE.

* * * * * * *

TABLE OF CONTENTS

* * * * * * *

TITLE III—SMALL BUSINESS INVESTMENT COMPANIES

Sec. 301. Organization of small business investment companies.

* * * * * * *

Sec. 320. Guaranteed obligations not eligible for purchase by Federal Financing Bank.

Sec. 321. Issuance and guarantee of trust certificates.

* * * * * * *

TITLE III—SMALL BUSINESS INVESTMENT COMPANIES

* * * * * * *

"GUARANTEED OBLIGATIONS NOT ELIGIBLE FOR PURCHASE BY FEDERAL FINANCING BANK

SEC. 320. Nothing in any provision of law shall be construed to authorize the Federal Financing Bank to acquire after September 30, 1985—

(1) any obligation the payment of principal or interest on which has at any time been guaranteed in whole or in part under this title,

(2) any obligation which is an interest in any obligation described in paragraph (1), or

(3) any obligation which is secured by, or substantially all of the value of which is attributable to, any obligation described in paragraph (1) or (2).

ISSUANCE AND GUARANTEE OF TRUST CERTIFICATES

SEC. 321. The Administration or its agent is authorized to issue trust certificates representing ownership of all or a fractional part of the guaranteed debentures issued by small business investment companies and guaranteed by the Administration under this Act under the same authority, terms and conditions as are applicable to trust certificates issued for loans pursuant to the authority of subsection 5(g) of the Small Business Act.

* * * * * * *

TITLE V—LOANS TO STATE AND LOCAL DEVELOPMENT COMPANIES

* * * * * * *

SEC. 504(a). Of the program levels otherwise authorized by law for Fiscal Year 1986 and notwithstanding any other law, rule or regulation, the Administration is authorized and directed to conduct a pilot program involving the sale to investors, either publically or by private placement, of up to $100 million in debentures guaranteed pursuant to section 503 of the Small Business Investment Act of 1958. The sale may be for all or a fractional part of such amount and the Administration or its agent further is authorized to issue trust certificates for such debentures under the same authority, terms and conditions as are applicable to trust certificates issued for loans pursuant to the authority of subsection 5(g) of the Small Business Act.

(b) Nothing in any provision of law shall be construed to authorize the Federal Financing Bank to acquire—

(1) any obligation the payment of principal or interest on which at any time has been guaranteed in whole or in part under section 503 of the Small Business Investment Act of 1958 and which is being sold pursuant to the provisions of the pilot program authorized in subsection (a),

(2) any obligation which is an interest in any obligation described in paragraph (1), or

(3) any obligation which is secured by, or substantially all of the value of which is attributable to, any obligation described in paragraph (1) or (2).

(c) The Administration shall report to the President and the Congress on the conduct of such pilot program not later than 90 days after the date on which the last sale is made pursuant to paragraph (a) and unless such report has been made by October 1, 1986, the Administration shall make an interim report by such date.

* * * * * * *

○